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Euro Weekly

French Elections: Hollande's Elysean Dream

- According to polls, Socialist candidate François Hollande is expected to win the Presidential election on 6 May. Despite his lack of ministerial experience and his being untested on the international scene, French voters have a positive opinion about his ability to provide the right solution. This paper adopts a simple Q&A structure to answer investors' main concerns about what a win for Hollande would mean for France in the coming years in our view.
- We argue that the country will continue to abide by its EU goals of reducing the budget deficit to less than 3% of GDP by 2013. But we are worried that excessive reliance on tax increases rather than expenditure cuts to balance the books will hamper the country's growth potential. We look for continued downward pressure on the country's sovereign ratings and see little prospect of much compression in the OAT/Bund spread.
- Turning to the fiscal compact ratification exercise, we believe that Hollande is more likely to negotiate a face-saving compromise with Angela Merkel, supplementing the Treaty by a protocol or a statement of intent on growth considerations (including Eurobonds) without any binding constraints, rather than risk another crisis (Guillaume Menuet, see page 2).

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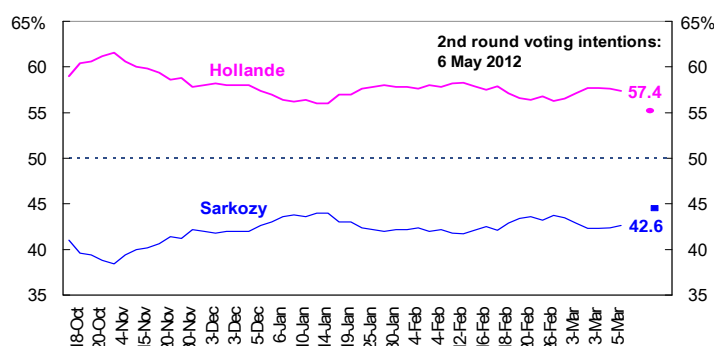
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With thanks to Carla Clifton

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
3Q 12	1.30	0.50	1.50	0.82	0.50	20	8.80	1.00	7.50	1.50	1.21	0.00	-94
1Q 13	1.26	0.50	1.50	0.80	0.50	10	8.79	1.00	7.50	1.50	1.22	0.00	-86

Source: Citi Investment Research and Analysis

Figure 2. France — Second Round Voting Intentions, Oct 11-Mar 12


Note: The lines are the average of the surveys from the list of polling institutes. The individual points represent the IFOP daily rolling poll. Sources: CSA, Harris, BVA, IPSOS, LH2, BVA, TNS-Sofres, IFOP, OpinionWay and Citi Investment Research and Analysis

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

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French Elections: Hollande's Elysean Dream

We are approaching the business end of the Presidential campaign, with six weeks before the 22 April first round

On 16 March, the list of Presidential hopefuls will be whittled down to that of final contenders since only those with 500 mayoral votes can feature in the first round on 22 April. While there is a possibility that Marine Le Pen, leader of the National Front, might not obtain the necessary quorum, it is debatable whether voting dynamics would change much to the advantage of President Nicolas Sarkozy. Historically, voting intentions crystallise in March, leaving Sarkozy a window of just a few weeks for an unlikely political comeback. We expect François Hollande to be the next host in the Elysée palace given his considerable winning margin in the polls. This paper adopts a simple Q&A format to answer investors' main concerns about what a victory for Socialist candidate François Hollande would likely mean for France.

What are pollsters saying about the election outcome?

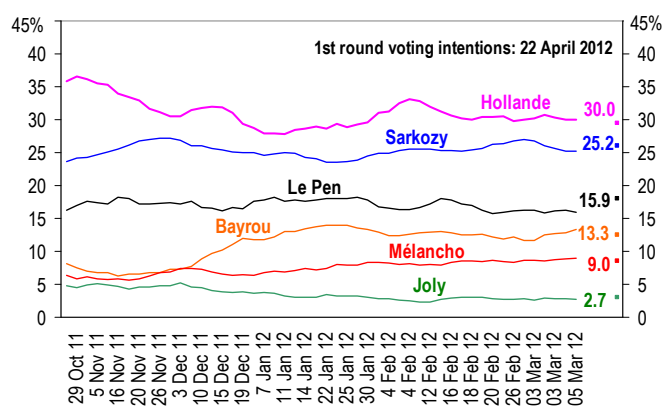
The odds are stacked against Sarkozy winning another term

Since the start of the financial crisis, the anti-incumbent rule has prevailed. Although Nicolas Sarkozy could still improve his standings in terms of voting intentions, time is fast running out. In order to catch up, Sarkozy has to appeal to voters who would otherwise be tempted by the National Front (see Figure 3). The President must poll a large percentage of votes in the first round if he is to have any chance of final victory. Historically, the candidate who is ahead in March is elected in May.

The ECB's successful crisis-fighting strategy has diluted Sarkozy's 'don't change captain in the storm' message

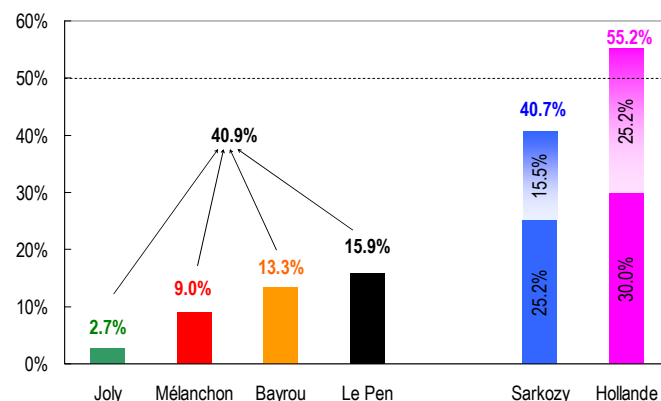
What would make us think that Sarkozy could buck the trend? Very little at this stage unless the euro area sovereign debt crisis takes a turn for the worse. There is some irony in that Sarkozy lobbied hard early on to get the ECB involved, prompting some Member States to stress the need to respect the Bank's independence. With [two large LTROs](#)¹ having successfully addressed the risks of bank failures and failed sovereign bond auctions, the reduction in market stress has lowered his chances of re-election in our view.

Figure 3. France — First Round Voting Intentions, Oct 11-Mar 12



Sources: CSA, Harris, BVA, IPSOS, LH2, BVA, TNS-Sofres, IFOP, OpinionWay and Citi Investment Research and Analysis

Figure 4. France — Predicted Second Round Outcome from Expected Vote Transfers, Feb-Mar 12



Sources: TNS-Sofres, IFOP, CSA, IPSOS, BVA, LH2 and Citi Investment Research and Analysis

First round voting intentions

Hollande's lead appears almost unassailable for Sarkozy

With only six weeks before the first round of the Presidential vote, his lead is without historical precedent. Interestingly, 57% of voters approved Hollande's proposal to introduce a new marginal rate of income tax of 75% for earnings in excess of €1 million. While we expect some erosion in support for the two main candidates in

¹ The December 2011 and February 2012 LTROs increased the net provision of ECB liquidity by a combined €507bn (€193bn and €314bn, respectively).

coming weeks as the campaign gives all contenders an equal time to publicise their policies, the gap between second and third is probably too large to spring a surprise as in 2002. For more details, refer to [Global Political Insight: French Presidential Elections: Political, Economic Market Implications](#), 7 March.

Second round voting intentions

A high proportion of voters have already made up their minds about the second round

This election essentially amounts to a referendum on the Sarkozy presidency. Not only are more than 57.4% of voters (see Figure 2 on the front page) saying that it is time for a change, the proportion of voters who are 'certain of their choice' is exceptionally high according to various polling institutes. Hence Hollande knows that unless he makes a serious mistake, the election is his to lose.

Taxes will go up irrespective of the outcome, but French voters do not seem to mind much, despite the likely negative growth consequences of this strategy

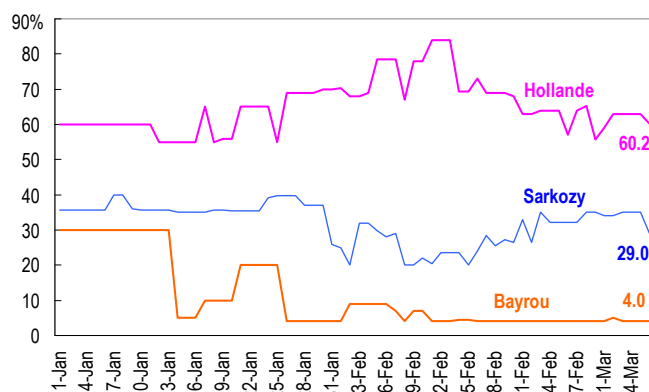
Irrespective of which candidate wins the Presidential elections in May, households will face an increase in their tax bill, either through direct or indirect taxation. Raising taxes is the easiest solution for candidates to avoid telling voters that expenditure will need to be curtailed more aggressively, which in France has never been much of a vote winner. This situation will likely induce households to increase their savings ratio and weigh on consumption. Our forecast is that household spending will contract in 2012, likely keeping GDP growth in negative territory around -0.3%.

Market and Rating implications of Hollande winning?

First decisions to be scrutinised, market and rating agency pressure likely to remain elevated for a few years

If elected on 6 May, François Hollande would only become the second Socialist to become President by relying on the popular vote. His first decisions will be scrutinised, particularly regarding the fiscal compact, but also with respect to the fiscal policy stance. In the past, French Socialist governments have been able to implement significant structural reforms, thanks to an easier dialogue with trade unions and public sector employees who represent a large part of their voter base. We expect this situation to persist in coming years. We continue to believe that rating agencies will maintain a downward bias on France's sovereign ratings for a few years and see little prospect of much compression in the OAT-Bund spread (see Figure 6).

Figure 5. France — Winner of French Presidential Election, Jan-Mar 12



Sources: Intrade and Citi Investment Research and Analysis

Figure 6. France — Generic OAT/Bund Spread, Jan-11 to Mar-12



Sources: Bloomberg and Citi Investment Research and Analysis

What could derail Hollande's probable victory?

An accident is always possible, but unlikely for an experienced politician

- In our opinion, only a series of bad performances in the last few weeks of the Presidential campaign, specifically in face-to-face debates that will take place between the first and second rounds, could derail the Hollande juggernaut.

Le Pen voters not sufficiently fond of Sarkozy to simply switch candidate

■ The possibility that Marine Le Pen, leader of the National Front, might not obtain the required 500 mayoral signatures to be a candidate in the election could be a threat to Hollande's hope of coming out on top in the first round. However, a significant share of the Le Pen voters will probably switch their allegiance to other non-mainstream candidates according to the various polls.

European clout could be an obstacle, but this is mainly a domestic contest

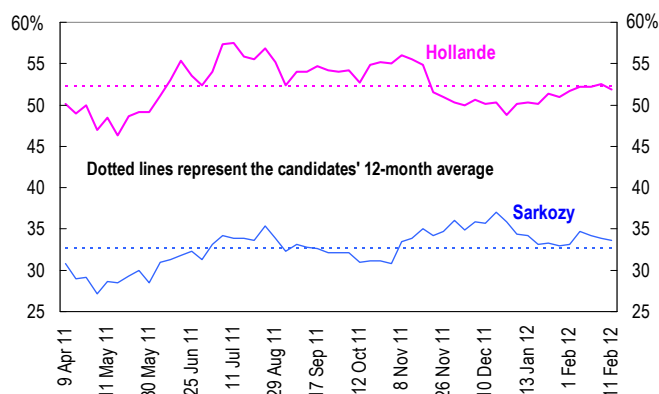
■ While his lack of international exposure could ultimately prove a major drawback, the recent stories about a supposed pact by European centre-right government heads to freeze Hollande out have probably worked in his favour.

A career politician without a cabinet job: a candidate by default?

Who is François Hollande²?

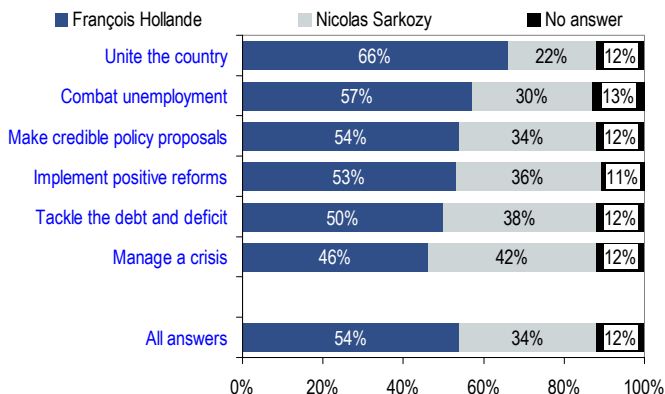
The highlight of François Hollande's political career so far has been his 11-year tenure as First Secretary of the French Socialist Party (1997-2008). Although his first senior post was as chief of staff for Max Gallo, the spokesman in Pierre Mauroy's third government during the first of Mitterrand's two terms, Hollande is one of the few prominent left-wing politicians never to have held a cabinet position. He has been a member of parliament since 1997, mayor of Tulle from 2001 to 2008, before becoming President of the General Council of Corrèze. He won his Presidential nomination as Socialist Party (and the Left Radical Party) candidate after a lengthy primary campaign which was notable by the absence of the (then undeclared) arch-favourite, former IMF managing Director Dominique Strauss-Kahn.

Figure 7. France — Share of Positive Opinions, Apr-11 to Feb-12



Sources: IPSOS, BVA, TNS Sofres, OpinionWay, CSA, IFOP and Citi Investment Research and Analysis

Figure 8. France — Who Would you Most Trust To?, 23-24 Feb 2012



Sources: BVA and Citi Investment Research and Analysis

How is he perceived by voters?

Voters look at Hollande positively

Opinion polls show that Hollande is making a favourable impression on voters. In the last twelve months, surveys combining voters' perception of his actions and their desire for him to play a more prominent role have shown a consistent positive bias (see Figure 7). With around 52% of positive opinions, the sympathy gap to Sarkozy's 34% is large. We argue that since neither candidate has been able to change voters' perception much in the last year — let alone in the last months and weeks — it is unlikely that Hollande will see his popularity plummet. Despite being untested, Hollande is perceived to be more trustworthy on all the key subjects (see Figure 8).

² http://en.wikipedia.org/wiki/Fran%C3%A7ois_Hollande; <http://francoishollande.fr/actualites/francois-hollande-ma-biographie/>

A self-effacing consensus builder who has united the many and often fractious Socialist factions

How supportive is the Socialist Party?

In many respects, Hollande could be described as “the Monsieur Normal of French politics”. Despite his lengthy tenure as the head of the Socialist Party, he has been somewhat self-effacing and one of the least vocal of the Socialist heavy-weights; many political commentators describe him as a consensus builder. We argue that this is probably one of the reasons why he emerged victorious from the Socialist primaries defeating Martine Aubry, a feistier representative of the party's left wing, in the run-off. To be sure, these primaries have created a much greater sense of unity than in 2007 when Ségolène Royal (former long-term partner of Hollande) was repeatedly undermined by senior Socialists and ended up losing the election to Sarkozy. The Socialists appear to have put their differences aside, spurred by the prospect of a relatively easy election win against a deeply unpopular president.

What does his manifesto advocate?

A tax shock from 2013, with modest curbs in government spending

Hollande intends to close France's government budget gap, aiming to eliminate the deficit by 2017. To achieve this objective, his manifesto relies on a significant increase in taxation, starting with a 1.4ppt hike in income tax and social security contributions to 46.5% of GDP in 2013 (see Figure 9). In subsequent years, the manifesto envisages additional contributions worth 0.1ppt per year. In terms of expenditure, the manifesto freezes central government outlays in real terms, whereas broader general government expenditures — including social security and local authorities — increase by 1%. Despite an aggregate decline in real terms over five years, the size of the reduction in public spending would be only about half of that targeted amount by the government or by centrist leader François Bayrou.

Figure 9. France — GDP Growth (% YY), Budget Deficit and Implied Fiscal Policy Tightening Programmes (% of GDP, until mentioned otherwise), 2011-2016F

Government Plan						Hollande Plan						Bayrou Plan					
Years	GDP Growth	Budget deficit	Public Expenditures	Direct Taxes	Implied Tightening	Years	GDP Growth	Budget deficit	Public Expenditures	Direct Taxes	Implied Tightening	Years	GDP Growth	Budget deficit	Public Expenditures	Direct Taxes	Implied Tightening
2011			56.3	43.7		2011			56.3	43.7		2011			56.3	43.7	
2012	0.50	-4.5	56.2	44.8		2012	0.50	-4.5	56.5	45.1	1.2	2012	0.20	-4.3	56.9	45.4	1.1
2013	2.00	-3.0	55.2	45.3	1.5	2013	1.70	-3.0	56.3	46.5	1.6	2013	1.00	-2.8	55.9	46.2	1.8
2014	2.00	-2.0	54.4	45.5	1.0	2014	2.00	-2.3	55.8	46.6	0.6	2014	1.50	-1.4	55.0	46.9	1.6
2015	2.00	-1.0	53.5	45.8	1.2	2015	2.25	-1.6	55.3	46.8	0.7	2015	1.50	-0.5	54.2	47.1	1.0
2016	2.00	0.0	52.8	46.0	0.9	2016	2.25	-0.8	54.6	46.8	0.7	2016	1.50	0.0	53.7	47.2	0.6
						2017	2.25	0.0	53.9	46.9	0.8	2017	1.50	0.3	53.4	47.3	0.4
2012-16			-3.4	1.2	4.6				-1.9	1.7	3.6				-3.2	1.8	5.0
Respective shares			74%	26%					53%	47%					64%	36%	
€ bn			-€68.6	€24.2	€92.8				-€38.3	€34.3	€72.7				-€64.6	€36.3	€100.9

Sources: Le Monde and Citi Investment Research and Analysis

Burden sharing expected to be equally spread between households and firms

The main plank of the manifesto is a reduction worth €29bn in tax exemptions. The burden of the adjustment is thought to fall equally between households and firms. New measures worth €20bn will be financed by fresh resources and/or a reduction in other expenditure (see Figure 10). With respect to public sector employment, Hollande announced that he would end the policy of replacing only one in two retiring civil servants.

Are Hollande's GDP growth assumptions realistic?

Ambitious GDP baseline, essentially identical to the government's

Hollande's programme is the most ambitious in terms of GDP projections, envisaging economic activity to expand by 1.83% per year in the period 2012-2017 compared with the government's 1.75% estimate. By contrast, the centrist baseline is much lower at 1.2% — very similar to our GDP central scenario averaging 1.15%.

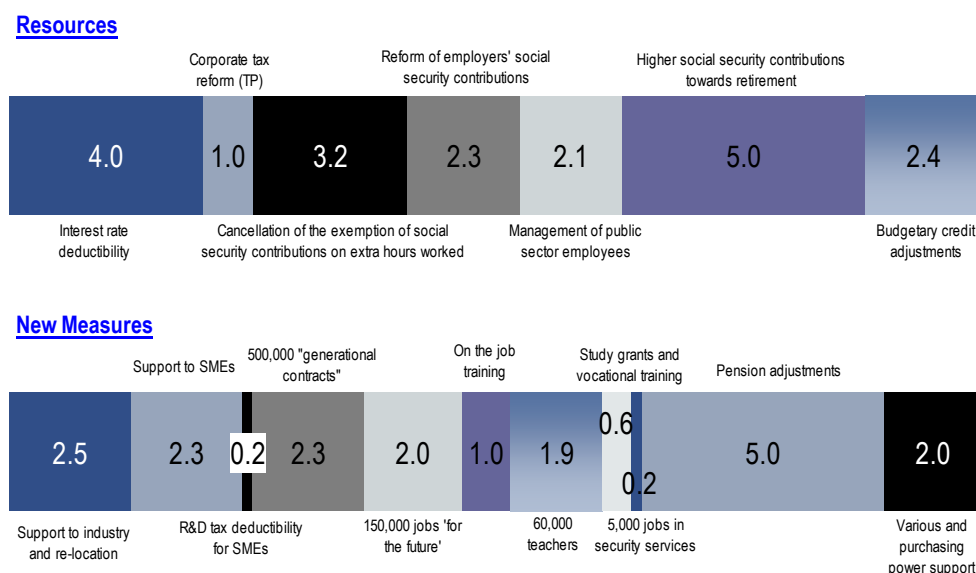
**Relying on a balanced situation
regarding expenditure cuts and tax
increases**

The policy mix to reduce the fiscal deficit presented in the Socialist Programme is essentially balanced between expenditure cuts (53%) and tax increases (47%). This would run counter to the OECD's latest report urging France to reduce its fiscal take and reform its labour market further. If successfully implemented, the OECD estimates that structural reforms could lift the potential growth rate by up to 1 point over the next decade.

**Balancing the books a year later than
implied by the EU Stability and
Convergence Programme**

Note however that the EU requirement of balancing the books by 2016 is delayed by one year to 2017, reducing the amount of fiscal policy tightening in the first two years of the Presidency by 0.3pt compared to the government's baseline. While the strategy of limiting the reduction in expenditure in 2013 could yield some benefits in terms of GDP growth, we worry that aggressive tax increases (if implemented in full) will probably have a greater negative effect on economic sentiment and activity. In the event of a negative GDP surprise, we believe that Hollande would likely lobby France's euro area partners for more time to hit budget targets.

Figure 10. France — Socialist Manifesto Measures and Financing Resources, €Bn



Sources: FrancoisHollande.fr and Citi Investment Research and Analysis

Can/Will Hollande implement his manifesto?

**Complete control of the political system
will ensure smooth implementation**

From the "60 objectives for France", his priorities are education and youth, fiscal justice and an improvement in the growth potential through investment. The order of policy implementation will be at the discretion of the President, but with the Left already in control of the Senate³ and likely to obtain a majority in Parliament⁴, any legislative measures are likely to be voted and promulgated rapidly. Assuming that GDP growth were to fall short compared to expectations for 2012 and also that the 1.7% objective for 2013 will not be met, we believe that some of the most costly spending measures might be delayed as we doubt that the option of increasing fiscal deficits above and beyond the current plan would be realistic.

³ Out of 348 seats, the Left has 177 seats (130 Socialists, 21 Communists, 16 Social Democrats and 10 Greens).

⁴ Since 2002, legislative elections are held in the immediate aftermath of the Presidential vote, giving the party of the new President a solid majority. The first round will take place on 10 June and the second round on 17 June when the 577 seats will be in contention. A new government will probably be formed by the end of June.

The fiscal straightjacket will apply to all member states, including France

Will Hollande stick to the budget deficit reduction path?

Euro area countries have very little leeway with respect to meeting their budget deficit-to-GDP objectives (although the recent developments in Spain suggest that at least some countries will not meet the earlier agreed fiscal targets for 2012). The soon-to-be-ratified [Fiscal Compact Treaty](#) requests the introduction of a balanced budget rule in the Member States and an automatic mechanism to take corrective action when Member States deviate from the required path of fiscal adjustment. Together with the euro six-pack — its preventive approach sets a strict guideline on expenditure growth, and requires any new outlays to be financed by permanent revenues — these frameworks make non-compliance much more difficult given the closer monitoring through the European Semester and the threat of sanctions.

Extra scrutiny for countries under an Excessive Deficit Procedure

With France expected to be taken off the EU's Excessive Deficit Procedure list in 2013 (assuming a budget deficit-to-GDP ratio of less than 3%), any indication of a likely shortfall versus the 2012 budget deficit target of 4.5% of GDP will require corrective action soon after the elections.

No room for fiscal profligacy: other member states will be watching

Hollande and the Socialist Party support the objective of returning to a balanced budget position, albeit by 2017, a year later than the government. As a creditor country involved in providing financial support and guarantees to the rescue facilities, France can hardly fall by the wayside while lecturing other countries about the importance of fiscal rectitude. Meeting budget targets is also a pre-condition for a continued healthy working relationship with Berlin, in our view.

ESM rejection justified by the facility lacking the means to tackle the crisis

Why did the Socialists say No to the ESM?

The Socialist Party's decision to abstain in the parliamentary vote on the ESM at the end of February has worried investors and EU leaders. However, in the weeks leading to the vote, some Socialist representatives had argued that they could not back a facility that lacked scale and that did not have a link to the ECB — presumably referring to Germany's refusal to give the ESM a banking licence or at least granting it the statute of an eligible counterparty for ECB refinancing operations.

In principle, Socialists agree to the need for budget consolidation...

How strongly is Hollande opposed to the Fiscal Compact?

Hollande is opposed neither to the adoption of a European fiscal compact nor to the introduction of a golden rule in the French constitution. We believe his refusal to adopt the latter before the Presidential election was primarily motivated by the political necessity of being seen to be able to choose a framework rather than being coerced into it. The Presidential candidate is not rejecting the Fiscal Compact Treaty outright but seeks amendments with clauses on growth⁵. More details on his ideas for Europe are expected to emerge at a meeting of European Socialists in Paris in late March.

...but want to see their growth concerns reflected appropriately in new proposals

His support for a more cohesive framework rests on a series of proposals such as:

- Strong and specific measures to spur economic growth
- A more activist ECB policy, particularly with respect to sovereign bond purchases
- A bigger financial bailout fund or firewall
- Joint and severally issued euro-area bonds.

⁵ Advisers to François Hollande indicate that he favours Treaty clauses to stipulate that a certain proportion of government spending should go into areas like industrial R&D and green energy.

Successful cooperation tends to be the outcome when Germany and France need a compromise

How to negotiate a face-saving compromise?

European history is littered with examples of leaders from different sides of the political spectrum managing to reconcile their differences and cooperate successfully. We think that Hollande's strong European credentials will lead to a mutually acceptable solution similar to that implemented in 1997⁶. However, compared to 1997, France seems now to be in a weaker negotiating position compared to Germany. We expect the Socialist candidate will be wary of excessive electioneering that could be damaging to his brand with conservative or centre-right heads of states and governments.

Link between the ESM and the fiscal compact means limited room to re-negotiate

Germany is worried that France's decision to renegotiate the Treaty could open the door to demands for amendments from other member states. We believe that such a scenario is unlikely, as we expect that, were this option to be used, non-core peripheral countries would experience increasing pressure from both markets and the EU Commission (using current laws) to front-load fiscal austerity, which would lead to larger-than-expected declines in peripheral countries' GDP throughout 2012. Given the explicit link between the Fiscal Compact Treaty and the ESM, whereby financial assistance can only be provided to member states that have already endorsed the Treaty, the risk of countries derailing the ratification process appears limited in our opinion.

More countries could rally to Hollande's viewpoint after a challenging 1H 2012

We suspect that a situation reminiscent of 1997 will unfold in the late spring or early summer when, after his expected victory, Hollande attempts to rally some support among other EU member states to introduce clearer references to the need to support GDP growth. Indeed, more countries are beginning to express concerns about the negative implications on GDP growth from the austerity cure that is being administered under the auspices of the European Commission and the benevolent gaze of the European Central Bank. Furthermore, left wing opposition parties in Germany and Austria, whose support is needed for the Fiscal Compact to get the required 2/3 majority in parliament, are demanding additional growth supporting components in the Treaty.

Timing will be key and France's ratification is not necessary for the Pact to come into force

Depending on how many member states have completed their national ratification process by the time Hollande is expected to become President and his government has been formed (late June), the political cost of re-negotiation will vary. If, as we expect by then, Germany has also ratified, Hollande's room for manoeuvre will be restricted significantly. Legally, France's ratification is not required given the provision that the Treaty becomes binding after 12 out of 17 euro area member states have ratified it.

Cosmetic changes possible, as long as the spirit of the Treaty is preserved

We argue that amendments to the already signed Fiscal Compact Treaty are unlikely to be included, unless judged to be cosmetic and not altering the spirit of the Treaty. To be sure, Peer Steinbrück, one of the Social Democrat candidates for Chancellor in the next German election, described Hollande's stance of hoping to re-negotiate as "naïve".

⁶ The addition of the word 'Growth' to the Stability Pact was a French demand to ease the acceptance of the pact at home. The Plural Left had promised a rejection of the Stability and Growth Pact as part of the wider push for a 'euro-social'. To avoid a crisis that would put EMU at risk, the Jospin government reached a compromise with the Germans at the Amsterdam European Council in June 1997. This compromise involved the symbolic modification of the resolution on the pact by a general and vague resolution on growth and employment, topped by a common preamble which ostensibly granted equal weight to both. The Amsterdam resolution on 'growth and employment' included the 'urging' – no obligation was established – of the European Investment Bank (EIB) to increase its interventions in high-technology and small and medium-sized enterprise projects, as well as education, health, environment, and large infrastructure projects on the grounds that these tended to create jobs. *The French State in the Euro-Zone: Modernization and Legitimizing Dirigisme*, David Howarth, page 167 in *European States and the Euro*, Oxford University Press

**Looser commitments to a transition
phase for Eurobonds could be enough**

It is conceivable, in our view, that the Treaty could be supplemented by a protocol or a statement of intent without any binding constraints. Such a document could offer a loose commitment to a transition phase towards the issuance of euro-bonds once certain fiscal criteria have been met — after all the EU parliament has already given its imprimatur. But we suspect that any references to the ECB will be avoided.

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Key Economic Indicators (12 March – 16 March 2012)

Monday 12 March		Forecast	Last
09:00	Italy: GDP Details, 4Q	-0.7% QQ, -0.5% YY	-0.2% QQ, 0.3% YY
10:00	Portugal: Consumer Prices, Feb		
NA	Greece: Industrial Production, Jan		
	Euro Area: EuroGroup Meeting of EA Finance Ministers (Brussels)		
Tuesday 13 March		Forecast	Last
00:01	UK: RICS House Price Survey, Feb		
	EU: EcoFin Meeting of EU Finance Ministers (Brussels)		
06:30	France: HICP, Feb	0.9% MM, 3.0% YY	-0.4% MM, 2.6% YY
	Consumer Prices, Feb	0.9% MM, 2.8% YY	-0.4% MM, 2.3% YY
07:45	France: Balance of Payments, Jan		
08:00	Spain: Consumer Prices, Feb	2.0% YY	2.0% YY
08:30	Sweden: Consumer Prices, Feb	0.7% MM, 1.9% YY	-0.9% MM, 1.9% YY
	CPIF, Feb	0.7% MM, 1.1% YY	-0.7% MM, 0.9% YY
08:15	Switzerland: Producer and Import Prices, Feb		
08:30	Netherlands: Trade Balance, Jan		
09:00	Italy: Consumer Prices, Feb	0.4% MM, 3.3% YY	0.3% MM, 3.2% YY
09:30	UK: Trade Balance – Goods & Services, Jan	£-2.0 Billion	£-1.1 Billion
10:00	Germany: ZEW Economic Indicator, Mar	13.0	5.4
11:00	Ireland: Industrial Production, Jan		
18:15	US: FOMC Outcome		
Wednesday 14 March		Forecast	Last
09:00	Sweden: PES Unemployment, Feb NSA	4.7%	4.8%
09:30	UK: Claimant Count Unemployment, Feb	+5,000 MM, 5.0% Rate	+6,900 MM, 5.0% Rate
	LFS Unemployment, Nov-Jan	+34,000 QQ, 8.4% Rate	+48,000 QQ, 8.4% Rate
10:00	Euro Area: Industrial Production, Jan	0.6% MM, -1.1% YY	-1.2% MM, -1.8% YY
10:00	Euro Area: HICP, Feb Final	0.4% MM, 2.7% YY	-0.8% MM, 2.6% YY
13:00	Norway: Norges Bank Monetary Policy Outcome	Unchanged at 1.75%	1.75%
Thursday 15 March		Forecast	Last
06:45	Switzerland: SECO Economic Forecasts		
07:00	EU-25: New Car Registrations, Feb		
08:30	Switzerland: Swiss National Bank Quarterly Monetary Policy Assessment		
08:30	Sweden: Unemployment Rate, Feb NSA	7.8%	8.0%
08:30	Netherlands: Retail Sales, Jan		
08:30	Netherlands: Industrial Production, Jan		
08:30	Netherlands: Unemployment, Feb		
09:00	Euro Area: ECB Monthly Bulletin		
09:00	Norway: Trade Balance, Feb		
10:00	Euro Area: Employment, 4Q	-0.1% QQ	-0.1% QQ
10:00	Euro Area: Labour Cost Index, 4Q	1.8% QQ	2.7% QQ
11:00	Ireland: Consumer Prices, Feb		
NA	Greece: Unemployment, 4Q		
Friday 16 March		Forecast	Last
08:00	Spain: Labour Costs, 4Q		
09:00	Italy: Trade Balance, Jan		
10:00	Italy: Current Account, Jan		
10:00	Euro Area: Trade Balance, Jan	€7.2 Billion	€7.5 Billion

Sources: National statistical offices, central banks and Citi Investment Research and Analysis

Economic Indicators

Euro Area

Mar 14 10:00 London Time	Industrial Production, Jan	Forecast: 0.6% MM, -1.1% YY	Prior: -1.2% MM, -1.8% YY
	Following the large fall in December, we expect a rebound in industrial production in January. This is probably partly due to unusually benign weather conditions. However, as the fall in orders in 2H 2011 has probably not fully come through, IP is likely to contract further in coming months.		
Mar 14 10:00 London Time	HICP, Feb, Final	Forecast: +0.4% MM, 2.7% YY	Prior: -0.8% MM, 2.6% YY
	We expect a confirmation of the flash estimate for February inflation. The split, available for the first time, probably will show that higher prices for energy propelled the headline reading. In addition, after the end of the winter sales, prices for clothing in particular probably increased in February. We expect that the core inflation rate remained unchanged at 1.5% YY in February.		
Mar 15 10:00 London Time	Employment, 4Q	Forecast: -0.1% QQ	Prior: -0.1% QQ
	We expect a second consecutive fall in employment in 4Q 2011. The economic slowdown and the cuts in public sector employment in the periphery countries are the main factors for higher unemployment. However, benign weather conditions at the beginning of winter probably limited the fall in unemployment in 4Q.		
Mar 15 10:00 London Time	Labour Costs, 4Q	Forecast: 1.8% QQ	Prior: 2.7% QQ
	We expect hourly labour cost growth to moderate in 4Q, as wage freezes or cuts in the public sector in the periphery countries are likely to come through, while existing wage contracts sap wage gains in the core countries (mainly Germany) in 2011.		
Jan 16 10:00 London Time	Trade Balance, Jan	Forecast: €7.2 Billion	Prior: €7.5 Billion
	In December 2012, the euro area trade balance reached its highest surplus since July 2004. The improvement in the trade position since October 2011 was due to both increasing exports and falling imports. In January we expect the trade surplus to slip. We forecast exports to be unchanged compared to the previous month while imports, partly due to higher energy prices, are likely to increase a bit (0.2% MM) in January.		

Germany

Mar 13 10:00 London Time	ZEW Economic Expectations, Mar	Forecast: 13.0	Prior: 5.4
	Supported by upbeat equity markets and ample ECB liquidity, we expect a fourth consecutive monthly gain in business expectations of financial market experts – the ZEW survey participants -- in March. The March level would be the highest since March 2011, but still 0.3 standard deviations below the long-term average. After a significant gain in February (12 points) we expect a smaller improvement in the assessment of the current business situation from 40.3 in February to 45 in March. The combined index is likely to increase from 22.9 in February to 29.0 in March, the highest reading since July 2011.		

France

Mar 13 06:30 London Time	CPI – EU Harmonised, Feb	Forecast: 0.9% MM, 3.0% YY	Prior: -0.4% MM, 2.6% YY
	Consumer Price Index, Feb	Forecast: 0.9% MM, 2.8% YY	Prior: -0.4% MM, 2.3% YY
	Headline inflation is expected to jump in February, reflecting a sizeable increase in the price of energy due to harsh weather conditions, and some further pass through from the January hike in the price of a number of administered products and services. Apart from seasonal fluctuations in the price of unprocessed foods, we believe that core inflation dynamics will improve in coming quarters. France's inflation profile could be lowered slightly in the second half of 2012 if Sarkozy's planned VAT hike were to be cancelled after a Hollande victory in May. The French ex-tobacco index is forecast to be stable at 124.18 in February.		

Italy

Mar 12 09:00 London Time	GDP Details, Q4	Forecast: -0.7% QQ; -0.5 % YY	Prior: -0.2% QQ; 0.3% YY
	We expect a confirmation of the flash estimate for a fall in Italian GDP in 4Q 2011 of 0.7% on the quarter and of 0.5%YY. We also expect the data on the evolution of the various expenditure components for 4Q 2011, which will be published for the first time, to show exports falling on a quarterly basis for the first time since June 2009 and to show an accentuation of the fall in Government consumption relative to 3Q 2011. We also expect to see imports falling more sharply in 4Q than in 3Q driven by weakness in domestic demand. Investment too, is expected to have fallen sharply in 4Q 2011 driven by a deep contraction in both business and construction investment.		
Mar 13 09:00 London Time	Consumer Prices, Feb Final	Forecast: 0.4% MM; 3.3% YY	Prior: 0.3% MM; 3.2% YY
	We expect Italian consumer prices in February to confirm the flash estimate for a YY increase of 3.3% and for a monthly rise of 0.4%. We believe that the February increase in petrol prices was the main driver of the uptick in monthly and YY readings.		

Spain

March 13 08:00 London Time	Consumer Prices, Feb Final	Forecast: 2.0% YY	Prior: 2.0% YY
	We expect YY consumer price inflation for February to confirm the flash estimate of 2.0% and to remain unchanged on the YY rate registered in January. We expect the CPI to fall compared to the previous month in reflection of the seasonal factors associated with the winter sales.		

Switzerland

Mar 15 08:30 London Time	SNB Quarterly Monetary Policy Assessment		
	We do not expect the SNB will change its interest rate or FX policy at this meeting. The economy is likely to be weaker than it previously expected, and the SNB probably will revise down its 2012 GDP growth forecast from 0.5% in the Dec-11 assessment to close to zero. In addition, deflation is emerging more strongly than the SNB expected. However, we believe the SNB will not seek to fine-tune monetary conditions, because frequent changes to the currency target could simply invite unwelcome speculation of further changes. This bias to inaction may be reinforced by the transition to a new Governor.		

Economic Indicators

Sweden

Mar 13	Consumer Prices, Feb	Forecast: 0.7% MM, 1.9% YY	Prior: -0.9% MM, 1.9% YY
	CPIF, Feb	Forecast: 0.7% MM, 1.1% YY	Prior: -0.7% MM, 0.9% YY
08:30			
London Time	We expect CPI to be stable at 1.9% YY in February and the Riksbank's preferred measure of inflation CPIF – which adjusts for changes in the cost of mortgages – to rise marginally to 1.1% YY, but still staying well below the Central Bank's 2% inflation target. Both headline and underlying inflation are expected to undershoot the Riksbank's forecasts again in February (CPI: 2.2% YY, CPIF: 1.3% YY). To be fair, this primarily reflects too high a forecast in January.		
Mar 14	PES Unemployment Rate, Feb, NSA	Forecast: 4.7%	Prior: 4.8%
09:00			
London Time	On a seasonally adjusted basis, the registered unemployment rate was 4.5% in January, broadly stable from previous months. Weekly data point to a broadly stable rate in February as well, but given the new definition of registered unemployment, there is still some uncertainty with respect to the seasonal pattern.		
Mar 15	Unemployment Rate, Feb NSA	Forecast: 7.8%	Prior: 8.0%
08:30			
London Time	Labour market indicators have, so far, proved surprisingly firm, and although slightly down, they remain at levels where employment can be expected to rise. We expect the unemployment rate to rise this year in line with the deteriorating economic prospects and the labour market could well be weakening faster than the Riksbank forecast. We forecast the unemployment rate at 7.8% this year, broadly on par with the Riksbank's updated forecast of 7.7% from February.		

Norway

Mar 14	Interest Rate Decision	Forecast: Unchanged at 1.75%	Prior: 1.75%
13:00			
London Time	We expect the Norges Bank to stay on hold at the March meeting following a larger-than-expected cut of 50bp in December. The recent dataflow also supports such an outcome.		

United Kingdom

Mar 13	Trade Balance – Goods & Services, Jan	Forecast: £-2.0 Billion	Prior: £-1.1 Billion
09:30			
London Time	The trade deficit fell sharply in December because of a large drop in imports (down 3.4% MM), with an especially sharp drop in imports from non-EU countries. We suspect this was partly erratic and look for some reversal this month, although the trade deficit is likely to fall in 2012 as a whole.		
Mar 14	Claimant Count Unemployment, Feb	Forecast: +5,000 MM, 5.0% Rate	Prior: +6,900 MM, 5.0% Rate
09:30	LFS Unemployment, Nov-Jan	Forecast: +34,000 QQ, 8.4% Rate	Prior: +48,000 QQ, 8.4% Rate
London Time	The single month data for unemployment on the LFS measure have bounced around recently, with large rises in September and November but large declines in October and December. We expect this series of alternating ups and downs to continue with the January data, putting unemployment in the latest three months up by about 34,000 people QQ.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, CIRA forecasts

Economic Indicators

Key Economic Indicators (19 March – 23 March 2012)

Monday 19 March		Forecast	Last
09:00	Euro Area: Balance of Payments, Jan		
10:00	Euro Area: Construction Output, Jan		
Tuesday 20 March		Forecast	Last
07:00	Germany: Producer Prices, Feb		
08:15	Switzerland: Industrial Production, 4Q		
08:30	Netherlands: Consumer Confidence, Mar		
09:30	UK: Consumer Prices, Feb	0.2% MM, 3.1% YY	0.1% MM, 3.6% YY
	CPI Ex Food, Drink, Tobacco, Energy, Feb	0.4% MM, 2.3% YY	-0.4% MM, 2.6% YY
	Retail Prices, Feb	0.4% MM, 3.3% YY	-0.6% MM, 3.9% YY
	RPIX – Excludes Mortgages, Feb	0.4% MM, 3.3% YY	-0.6% MM, 4.0% YY
11:00	UK: CBI Industrial Trends Survey – Output Expectations, Mar	+10%	+15%
	CBI Order Books, Mar	-5%	-3%
	CBI Selling Prices, Mar	+8%	+10%
NA	Greece: Current Account, Jan		
14:00	Belgium: Consumer Confidence, Mar		
Wednesday 21 March		Forecast	Last
09:00	Norway: AKU Unemployment Rate, Jan		
09:30	UK: Public Sector Net Borrowing (Ex Costs of Fin. Intervention), Feb	£10.1 Billion Deficit	Year Ago: £8.8 Billion Deficit
	Fiscal Year To Date, Apr-Feb	£103.6 Billion Deficit	Year Ago: £117.9 Billion Deficit
09:30	UK: MPC Minutes (Mar 8)		
Thursday 22 March		Forecast	Last
07:00	Switzerland: Trade Balance, Feb		
09:00	Euro Area: Manufacturing PMI, Mar Flash		
	Services PMI, Mar Flash		
	Composite PMI, Mar Flash		
09:30	UK: Retail Sales Volumes, Jan	-0.7% MM, 2.2% YY	0.9% MM, 2.0% YY
10:00	Euro Area: Industrial New Orders, Jan		
15:00	Euro Area: Consumer Confidence, Mar Flash		
Friday 23 March		Forecast	Last
	Greek PSI: Extended acceptance period ends for Greek bonds based on foreign law		
07:45	France: Industrial Survey, Mar		
08:00	Spain: Producer Prices, Feb		
09:00	Italy: Retail Sales, Jan		
09:30	UK: BBA Mortgage Approvals, Feb		

Sources: National statistical offices, central banks and Citi Investment Research and Analysis

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area: Sovereign Debt Crisis Update - Greek PSI next steps	Jürgen Michels	Mar 9, 2012
ECB - Larger Than Expected Use of 3Y LTRO	Jürgen Michels	Feb 29, 2012
European Economic Forecast Highlights - February, 2012	Ann O'Kelly	Feb 23, 2012
ECB Involvement in Greek Debt Restructuring	Jürgen Michels	Feb 14, 2012
Euro Weekly		
Euro Weekly - ECB — Assessing the Impact of the 3Y LTROs	Jürgen Michels	Mar 2, 2012
Portugal — Second Bailout and Debt Restructuring Likely	Jürgen Michels and Guillaume Menuet	Feb 24, 2012
Ireland — Tough Times Ahead	Michael Saunders	Feb 17, 2012
Rising Risk of Greek Euro Area Exit	Jürgen Michels	Feb 10, 2012
Greece		
Greece - Results of the Bond Swap	Jürgen Michels	Mar 9, 2011
Ireland		
Ireland - Implications of the Latest IMF Comments	Michael Saunders	Mar 5, 2012
Ireland - Weak Data and Interesting IMF Comments	Michael Saunders	Feb 28, 2012
Switzerland		
Switzerland - GDP Edges Up, PMI Still Sub-50	Michael Saunders	Mar 1, 2012
Global		
Global Economic Outlook and Strategy - February 2012	Willem Buiter	Feb 22, 2012
Norway		
Scandi / Swiss Update	Tina Mortensen	Mar 9, 2012
Sweden - Debt Office: Bond Issuance Raised to SEK 50bn this Year	Tina Mortensen	Mar 6, 2012
Norway - Booming Oil Investment Activity to Support Mainland Economy	Tina Mortensen	Mar 1, 2012
Norway - Norges Bank Regional Network Reports Strong Growth	Tina Mortensen	Feb 29, 2012
Norway, Sweden and Denmark - Will Scandi Exceptionalism Continue?	Tina Mortensen	Feb 27, 2012
Norway - Annual Address: No Policy Signals, Balanced Tone	Tina Mortensen	Feb 17, 2012
Norway - 4Q Mainland GDP Beats Expectations	Tina Mortensen	Feb 16, 2012
Sweden		
Sweden - 4Q GDP Surprises on the Downside	Tina Mortensen	Mar 1, 2012
Sweden - Dovish Minutes, But Majority Of Board Is In A Wait-and-See Mode	Tina Mortensen	Feb 29, 2012
Sweden - 25bp Rate Cut to 1.50%, No Signals of Additional Easing	Tina Mortensen	Feb 16, 2012
UK		
UK – Output and Inflation Expectations Fall -	Michael Saunders	Mar 9, 2012
UK – Services PMI Weakens -	Michael Saunders	Mar 5, 2012
UK - Mortgage Approvals Up, Lending Spreads Still Wide	Michael Saunders	Feb 29, 2012
UK - Mixed Results in CBI Retail Survey	Michael Saunders	Feb 28, 2012
UK - YouGov Reports Small Rise in Inflation Expectations	Michael Saunders	Feb 28, 2012
UK – GDP Data Highlight Investment Weakness	Michael Saunders	Feb 24, 2012
UK – Split MPC Vote, Gloomy Agents	Michael Saunders	Feb 22, 2012
UK – Fiscal Deficit Likely to Undershoot	Michael Saunders	Feb 21, 2012
UK – BoE Inflation Report	Michael Saunders	Feb 15, 2012
Sterling Weekly		
Sterling Weekly - Housing Market Flickers, But No Flame	Michael Saunders	Mar 2, 2012
Sterling Weekly - Budget Preview — Austerity Will Continue	Michael Saunders	Feb 24, 2012
Sterling Weekly - Where Will the Growth Come From?	Michael Saunders	Feb 17, 2012
Sterling Weekly - Dovish Inflation Report Expected	Michael Saunders	Feb 10, 2012

Source: Citi Investment Research And Analysis

Notes

Notes

Appendix A-1

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