

Central Europe Macro View

Trip Notes: Fragile growth prospects

- On 13-15 February we held a series of meetings with policymakers, IMF and World Bank officials and private sector investors in Hungary, Poland and Romania. This note summarizes key findings from these meetings.
- **Hungary.** Anchors for domestic policies may weaken as Hungary is no longer exposed to near-term funding pressure and may exit the EDP in 2013. While external and fiscal balances have improved, weak growth prospects remain a key challenge to debt sustainability and also the key issue to address for the government in the run-up to the elections in 2014. Given the narrow scope for fiscal changes and the outlook for low inflation on regulated utility prices, monetary policy may shift focus further towards measures to support lending under the new governance.
- **Poland.** In the face of economic slowdown, Polish authorities are trying to find an adequate response to support GDP growth and avoid recession. The Monetary Policy Council is unwilling to keep cutting interest rates at a fast pace and we believe it is likely to pause in its easing cycle soon. The government is more eager to provide a boost to the economy but existence of public debt limits doesn't allow for substantial fiscal easing. Instead the government is trying to use off-balance sheet measures and is planning to provide funding to large investment projects in the energy sector through state-owned bank BGK and the recently formed special purpose vehicle. Although the discussion in Poland seems to be turning toward euro adoption plans, we don't think the country will enter the EMU anytime soon.
- **Romania.** While the markets seem to have priced in the best-case scenario — completion of the current program and a new arrangement thereafter — we believe that the possibility of the Government not opting for a new program is higher than before. Looking ahead, we think that the NBR is likely to continue to adjust liquidity in light of the evolution of the leu, while keeping the policy rate unchanged. Despite the difficult recovery prospects, there is not much room for the NBR to ease without hurting the currency (unless capital flows pick up and remain strong). Regarding the bond market outlook, with the likely stabilization of foreign inflows into the bond market, we expect the shape of the yield curve to normalize in 2Q or earlier. Turning to the FX outlook, we argue that the current level of the carry remains attractive and should continue to support the currency in the near-term. Moreover, we believe that there are no major valuation concerns and that the NBR is likely to have a higher tolerance for appreciation this year given the challenging inflation outlook.

Hungary

Eszter Gargyan

+36-1-374-5559
eszter.gargyan@citi.com

Poland

Piotr Kalisz

+48-22-692-9633
piotr.kalisz@citi.com

Romania

Ilker Domac

+90-212-319-4623
ilker.domac@citi.com

Gultekin Isiklar

+90-212-319-4915
gultekin.isiklar@citi.com

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Trip Notes

These trip notes summarize our views after meetings with policymakers in Poland, Hungary and Romania on Feb 13-15.

Hungary¹

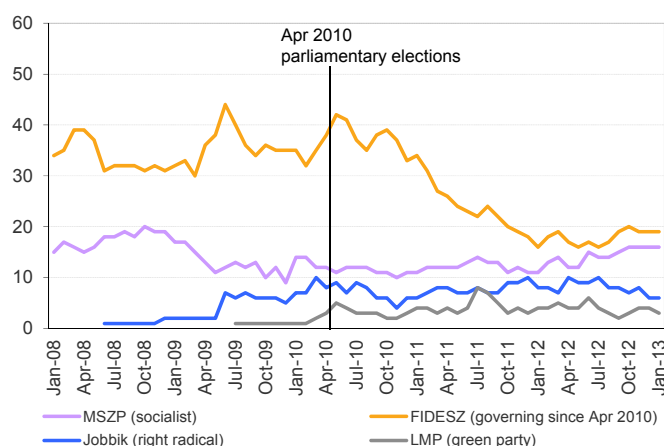
The upcoming parliamentary elections in Apr 2014 are likely to be the key driver of policy decisions in the coming year. As Hungary is struggling with its long-term growth problems, the risk of excessive fiscal or monetary loosening is investors' key concern. We believe the risk of significant fiscal deficit overshoot may be limited while the key risk seems to be the political pressure to utilize unconventional monetary policy tools as growth will likely continue to disappoint.

Politics to focus on April 2014 elections

The benign global liquidity environment has removed funding pressure from the government. The official suspension of talks about an IMF/EU loan program and the elimination of the risk of near-term funding pressure leave more room for policy decisions in the run-up to parliamentary elections. The EDP and the political sensitivity to FX weakening however still remain hard constraints to fiscal and monetary policy decisions and thus changes to these factors will be key to watch.

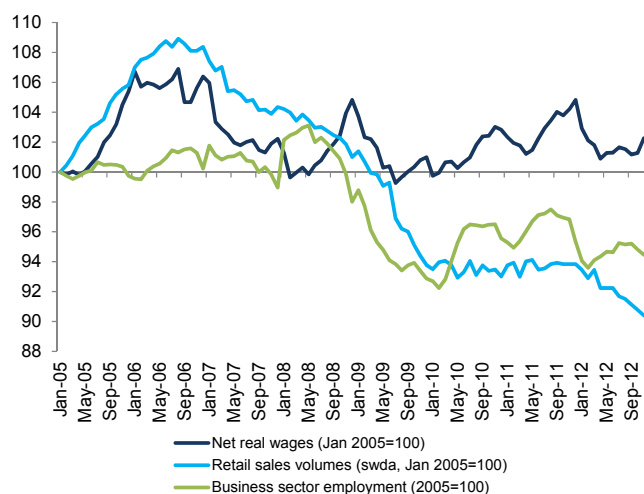
Opinion polls show that despite the significant slide in governing Fidesz popularity since the 2010 elections, it is still the strongest single party (see Figure 1) and its support has marginally improved in 2H12 after bottoming out in summer 2012. Given that close to 40% of the electoral base is undecided and disappointed in all major parties, the key to Fidesz victory in 2014 is if the opposition will be able to form an alliance and attract currently undecided voters. Former PM Bajnai's political return under Together2014 has so far debuted poorly and has been involved in negotiations about an electoral cooperation with the Socialist (MSZP) and green parties, but has not presented its program yet. Should this pattern turn, Fidesz may be forced to engage in more policy changes to secure victory.

Figure 1. Party popularity among all eligible voters (%)



Source: Szonda Ipsos, Citi Research

Figure 2. Retail sales, net real wages and business sector employment



Source: Hungarian CSO, Citi Research

¹ On Feb 14 we have met with government officials, MPC members, IMF local representative, local economists and investors in Budapest.

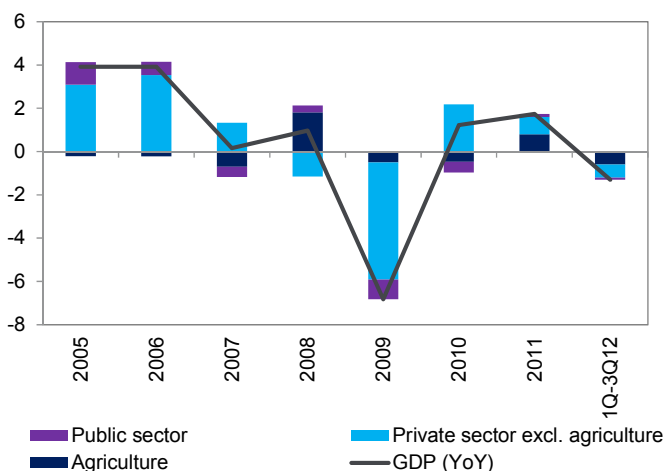
Weak growth results in continued stock problems despite improved balances

Hungary's balances have improved over the past couple of years, as the country's external balance (the current and the capital accounts) shows about 4% of GDP surplus and headline fiscal balance has declined below 3% of GDP.

Weakening external demand and the structure of fiscal adjustment however has eroded Hungary's growth potential to the range of 0-0.5%, according to the NBH's estimates, and has left Hungary vulnerable to external shocks. While net exports remain the key driver of growth, Hungary's loss in export market share reflects competitiveness issues. Bank deleveraging (see our note: [Bank Deleveraging – Where Are We Now?](#)), the unpredictable business environment and frequent changes in tax rates, such as the recent minimum wage hikes and effective tax hikes for low wage earners, are key reasons for a collapse in fixed investments and domestic demand.

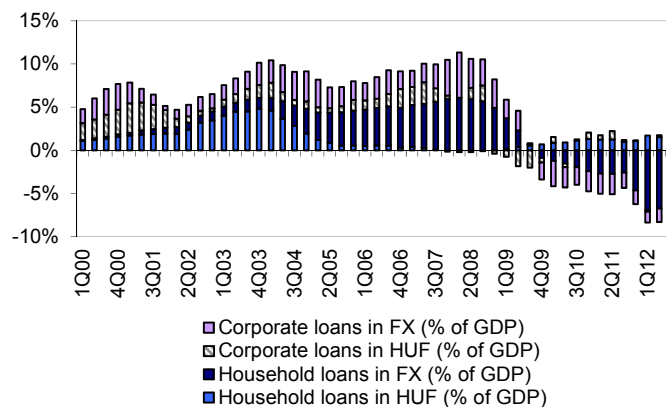
The absence of growth creates the key challenge to put the public debt ratio on a sustainably declining path despite the over 1% surplus in Hungary's primary fiscal balance. The reduction in public debt level is also in a focus of political communication. While the government-fostered public worker program has helped to increase employment, there has been no effective job creation in the private sector during the ruling of the current government. The burden of household FX debt deleveraging and poor labor market conditions have failed to deliver any positive turn in consumption. Base effects from poor agriculture harvest, the elimination of fiscal cuts, and the natural slowdown of credit deleveraging may help to lift GDP into marginally positive territory this year after 1.7% recession in 2012. But external factors may still pose risks to a return to positive growth and the outlook for recovery to a stronger — above 1% growth rate — beyond 2014 remains uncertain in the light of weak fixed investments and in the absence of a positive turn in the credit cycle. Therefore a positive turn in growth and lending is crucial for politics this year, which in our view will drive policy decisions.

Figure 3. Contributions to real GDP growth (% YoY)



Source: Hungarian CSO, Citi Research

Figure 4. Private sector 4Q rolling credit flows (% of GDP)



Source: National Bank of Hungary, Citi Research

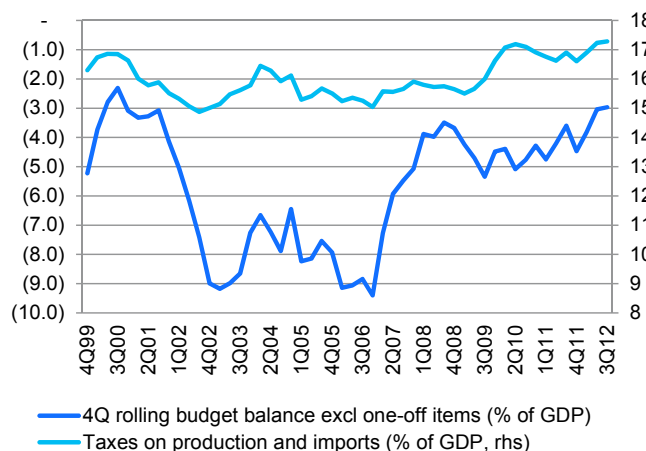
Headline fiscal balance may remain under control even without the EDP

Hungary's relations with the European Commission seem to have improved following the tensions last year, which is reflected in the generally supportive tone of recent EC statement on Hungary and press conference from the recent meeting of

PM Orban and EC President Barroso. This in our view increases the chance that Hungary may exit the Excess Deficit Procedure (EDP) procedure in June or December this year. Keeping Hungary under the EDP provides an option to the EC to limit Hungary's access to EU Cohesion Funds and is therefore an important guarantee that pre-election fiscal spending will be avoided. Under the current stance (2012 fiscal balance under 3% but projected fiscal gap is wider), Hungary is not exposed to sanctions, but once the EDP is lifted it may be a 6-12 month long procedure to get to the stage of potential sanctions again, which may be long enough to loosen the fiscal stance in the run-up to elections.

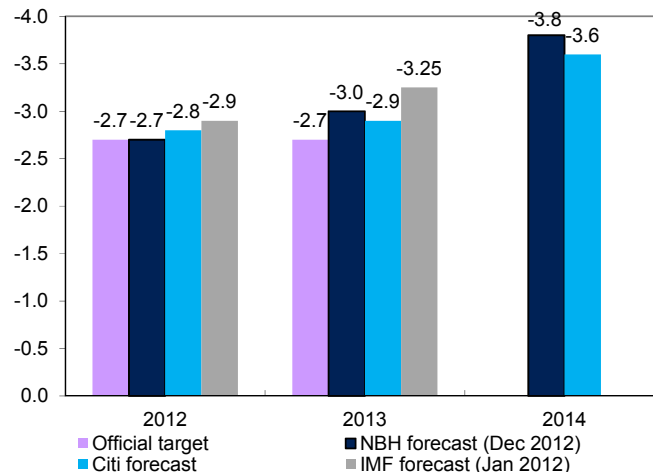
In terms of the timeline, the EC will publish its updated 2013-2014 deficit forecasts on Feb 22. The EC's conclusion from its mission with the IMF in January under a regular post program monitoring suggest that additional fiscal tightening may be needed to bring the fiscal balance below 3% of GDP in 2013 and 2014. The government may present additional fiscal measures in its updated Convergence Report that is due by April 15 in an effort to bring the projected budget balance below 3% for both 2013 and 2014. Although government officials claimed that savings may be related to public sector cuts, former experiences suggest that fiscal adjustment is more likely to be concentrated on the revenue side, burdening the corporate sector rather than direct unpopular measures. In terms of the ECOFIN decision, we still see reasonable chances that the positive decision to lift the EDP will be postponed to December in light of the upcoming elections, claiming that the adverse impacts of fiscal measures to boost economic growth pose risks to the medium-term deficit outlook.

Figure 5. 4Q rolling budget deficit and changes in tax revenues



Source: Hungarian CSO, Citi Research

Figure 6. General government balance forecasts (% of GDP)



Source: IMF, Government, National Bank of Hungary, Citi Research

Exiting the EDP and public debt reduction is the center of domestic political communication, attached to national pride about fiscal discipline. While the relative size of extra corporate and indirect taxes have increased significantly (adding around 2.2% of GDP revenues to the 2013 balance, according our estimates), the government in fact paid the political cost of restructuring and cutting expenditures in public administration, health care and higher education in the past two years. For these reasons we do not expect a major loosening in the fiscal balance in the run-up to the elections, even if the EDP will be lifted, apart from some optimistic fiscal planning, that can be corrected relatively fast, if needed. The pre-election fiscal campaign will likely be limited to measures that do not hit the budget immediately, like utility price cuts at the cost of the private sector or cheap funding from the NBH.

CB losses: A fiscal issue to drive monetary policy?

One issue that has been discussed during our meetings with relation to fiscal issues and potential changes to Central Bank regulations has been the fiscal loss on the CB's P&L. The increase in FX reserves from €17bn to €35bn throughout 2008-2010 with the withdrawal of the 2008 IMF/EU loan package has increased excess HUF liquidity and thereby the stock of 2-week CB Bills (from around €4bn to €14bn) in the NBH's balance sheet. The interest rate differential between CB assets and liabilities creates significant loss in the P&L, which has been so far compensated by income from FX weakening and covered by the NBH's positive equity until 2012. The projected loss however may turn the CB's equity negative by end-2013, which would have to be bailed out by the central budget in 2014, according to the current form of the CB Bill.

Figure 7. Central Bank P&L and its estimated impacts on the budget (2009-2014) based on the NBH's estimates

<i>data in HUF billion</i>	2009	2010	2011	2012E	2013E	2014E
1. Net interest income and realised profit arising from financial operations	-54	-76	-69	-189	-201	-190
2. Net income arising from exchange rate changes	137	50	99	158	10	23
3. Operating costs and expenses	-17	-16	-16	-13	-12	-12
4. Profit/loss for the year (=1. + 2. + 3.)	66	-42	13.6	-44.0	-202.9	-178.8
5. Equity (=4t-1+5t-1, if >0)	10	75	33	47	3	-200
6. Impact on budget (=4t-1+5t-1, if <0)	0	0	0	0	0	200

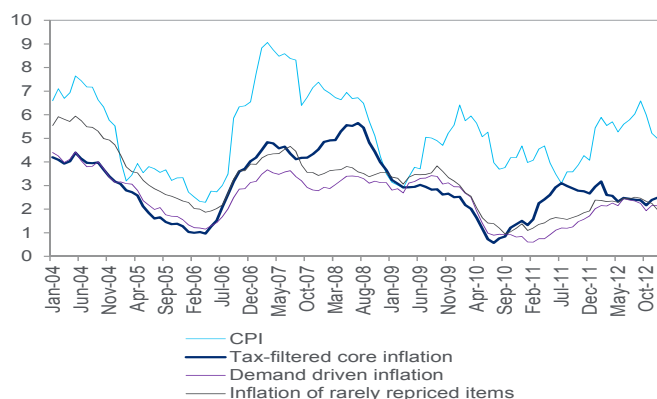
Source: National Bank of Hungary (Report on Inflation, Dec 2012), Citi Research

During our meetings we heard that the actual loss in 2013 may be lower than the NBH's projection from Dec 2012, most likely in the range of 0.3-0.4% of GDP. The ECB is unlikely to approve a change in the CB bill that would deliver negative equity, therefore narrowing the loss may remain an important fiscal issue. Limiting the size of 2-week CB bills — one solution often cited by local media — would not reduce HUF liquidity, as the excess liquidity would likely park in o/n CB deposits or government paper instead, which in turn may also end up as CB deposits. Therefore effective rate cuts (either by a reduction in the base rate and/or widening the corridor in o/n deposits and limiting 2wk CB bills) or a reduction in the level of FX reserves may be the only effective solutions to reduce the fiscal burden, which however both risk currency depreciation.

Can monetary policy help growth?

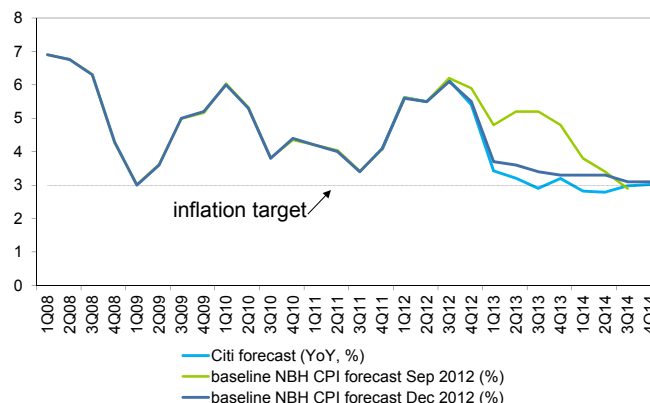
The upcoming replacement of the NBH governance and the current MPC members' sustained dovish stance raises the question, how much looser can monetary policy get without hurting stability? Growth figures continue to disappoint (with 4Q12 GDP falling short of expectations by 2.7%YoY decline) and headline inflation outlook continues to decline in easing food, fuel prices and most of all regulated utility price cuts. The 10% cut in retail electricity, heating and gas prices from Jan 2013 is likely to be followed by 10% in water and sewage prices in 2Q13, which may take headline inflation close to the 3% target (see Figure 9). Government officials are hinting at additional 20% cuts in household electricity and gas prices by June 2014, however these have so far not been confirmed and thereby are not yet reflected in CPI forecasts. Internal MPC members in the meanwhile remain concerned about trend inflation measures, which are close to 2%, below the 3% inflation target, albeit in a recessionary environment, reflecting the stickiness of inflation expectations (see Figure 8).

Figure 8. Headline CPI and core inflation measures (YoY, %)



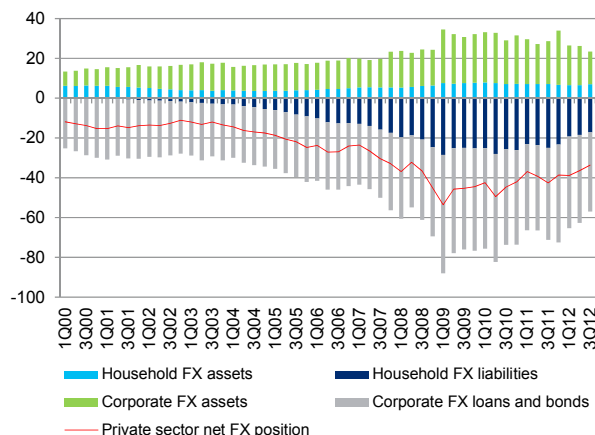
Source: National Bank of Hungary, Citi Research

Figure 9. Inflation outlook significantly lower with the help of recently announced utility price cuts



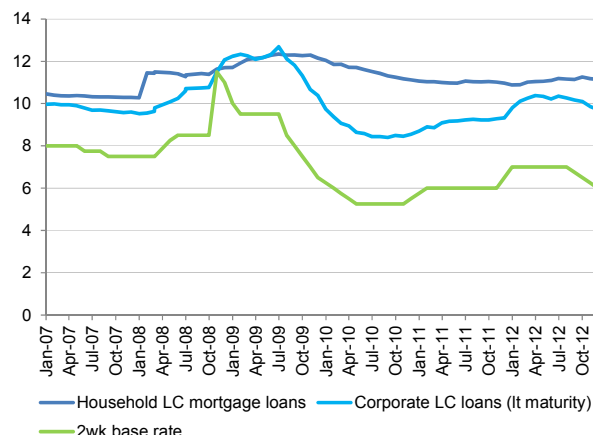
Source: National Bank of Hungary, Citi Research

Figure 10. Private sector FX assets and liabilities (% of GDP)



Source: National Bank of Hungary, Citi Research

Figure 11. IRs charged on household mortgages and long term corporate loans and the 2-week base rate (%)



Source: National Bank of Hungary, Citi Research

External MPC members remain confident that there is room for further rate cuts, and given the prospect for weak growth and declining inflation it will be most likely risk premiums that determine the bottom of the rate cutting cycle. This in our view suggests that the MPC will likely cut rates as long as the exchange rate remains stable in its recent range, but it also reflects the risk of an FX blow-up in case of any unexpected external or domestic policy shocks.

External MPC members seem to be committed to keep the FX stable, arguing that despite the various household FX mortgage aid program, the economy's FX sensitivity has not been removed (see Figure 10). Given that about 50% of total domestic debt (incl. household, corporate and public) is still FX denominated, any significant FX weakening is unlikely to be welcome by the government, at least in the run-up to the elections. MPC members stand on the conservative side about lowering FX reserves at a faster pace than the reduction in the countries' external debt falling due and they do not seem to agree with any form of monetary financing apart from major market disruptions. The question is if this view will also be preserved by an extended future MPC, following the replacement of the current NBH governance.

The upcoming replacement of the MPC governance will likely deliver changes to the monetary policy that may be key drivers to local asset prices, based on comments from EconMin Matolcsy about a “strategic alliance” between the NBH and the government and PM Orban’s focus on a positive turn in bank lending and economic growth. Based on our conversations, the MPC will likely be extended from current 7 to 9 members, by the appointment of a third Vice Governor and another external member, in line with the CB bill. This would allow PM Orban to appoint 5 new MPC members. The market consensus seems to be that Economy Minister Matolcsy will be appointed as the next Governor after current Governor Simor’s mandate ends on Mar 2.

We believe the monetary policy rhetoric may be influenced by the actual outcome of the CB Governor, but the actual measures implemented by the new governance may not differ significantly. Given that the 150bp rate cuts delivered so far by the MPC failed to lower household and corporate lending costs significantly (see Figure 11), the focus of any new monetary policy measures may be to channel cheap (below market-rate) funding to the economy through the utilization of state-owned or controlled banks. The fiscal and market impact of such measures may depend on their actual sizes. Hungarian banks do not have liquidity issues in LC and recent experiences show that the willingness to take out new loans at current funding costs is very low, at least as long as economic prospects remain bleak. We believe the scope for rate cuts may be limited by the use of unconventional monetary policy measures and while we do see scope for further 50-100bp base rate reduction if the external environment remains supportive, any loosening in quantitative monetary measures may narrow the scope for rate cuts.

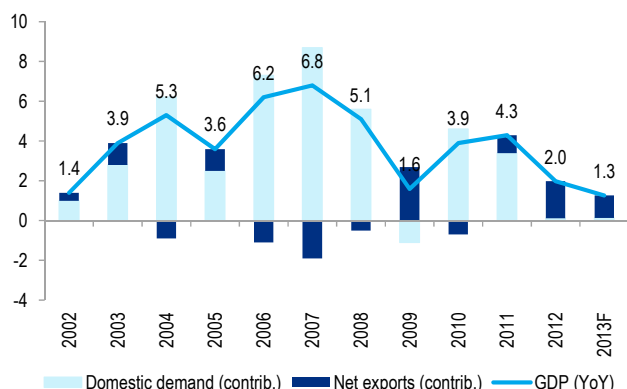
Poland: Trying to minimize the impact of slowdown

On February 13th we met with Polish Finance Ministry officials, central bankers, IMF staff and local investors in Warsaw. The key theme emerging from our meetings is the economic slowdown and the way Polish authorities want to respond to it. The economy slowed to 2% in 2012 from 4.3% in 2011, while the growth in 4Q recorded — according to our and Finance Ministry’s estimates — a mere 1% YoY. Private consumption was particularly hit and it fell by around 1% YoY in the last quarter of 2012, the first such drop in the time series reaching back to 1996. Most people we met in Warsaw agreed that growth in the current year is likely to be weaker than in 2012. Although the Finance Ministry has not revised its forecasts yet and still assumes economic growth of 2.2% YoY, the officials admit that forecasts that will be sent to European Commission later this year may be closer to the consensus (Reuters survey: 1.5%). Our own forecast is even lower (1.3% - Figure 12), though the difference is relatively small. In previous months the difference between our and consensus forecasts was considerably larger as the consensus view seemed overly optimistic about Poland’s growth prospects for 2012-2013, but more recently the consensus has drifted lower, closing most of this gap.

Finance Ministry officials believe the lower GDP growth should have relatively small impact on the general government deficit as usually a 1% point reduction in GDP growth translates into widening of the fiscal deficit by 0.4% of GDP. They agreed, however reluctantly, with our suggestion that the actual impact might be bigger than the average elasticity of 0.4 would suggest. That is because 2013 will be the second consecutive year of slowing growth and therefore the reaction of some revenue components might be non-linear. Also the structure of economic growth appears to be an issue, as the slowdown came from consumption contraction and therefore will probably affect indirect tax revenues that account for 2/3 of budget revenues in Poland. According to our estimates, the general

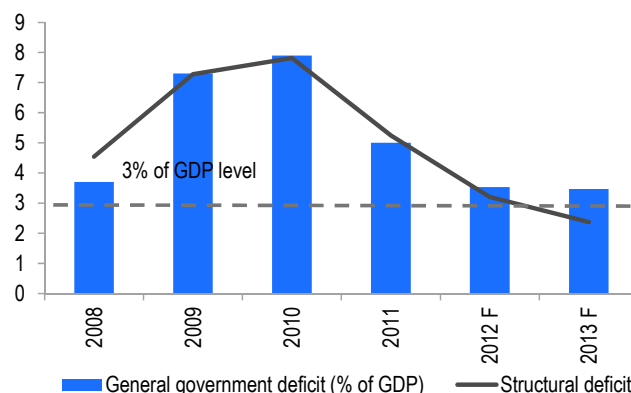
government deficit, a measure that includes central and local governments as well as social security funds, reached 3.5% of GDP in 2012, possibly with chances for somewhat better outcome (Figure 13). This means that the downward trend in fiscal deficit continued, although at a pace slower than the government initially assumed. For 2013 we expect the general government deficit to stay around 3.5% of GDP (with risks to the upside) and this forecast includes the assumption that the Finance Ministry keeps discretionary spending in check but allows automatic stabilizers to work. In our forecasts we assume also that this year's budget is likely to be revised later this year and the deficit ceiling will be raised by PLN 10bn.

Figure 12. Economic slowdown in Poland comes from substantial deterioration in domestic demand, in particular from weak consumption



Source: GUS, Citi Research

Figure 13. Headline deficit is likely to remain relatively stable but structural balance is set to improve



Source: Eurostat, Citi Research

Finance Ministry's and our forecasts suggest Poland has a chance of having Excessive Deficit Procedure (EDP) removed this year. Given that Poland implemented pension reform, which contributed to an increase in borrowing needs (as compared to countries with no pension reform), the European Commission is likely to accept a deficit slightly above 3% of GDP, at least as long as it doesn't exceed 3.5%. Since one of potential sanctions against countries in the EDP is a suspension of the access to cohesion funds, the removal of the Excessive Deficit Procedure would put the Finance Ministry in a more comfortable position.

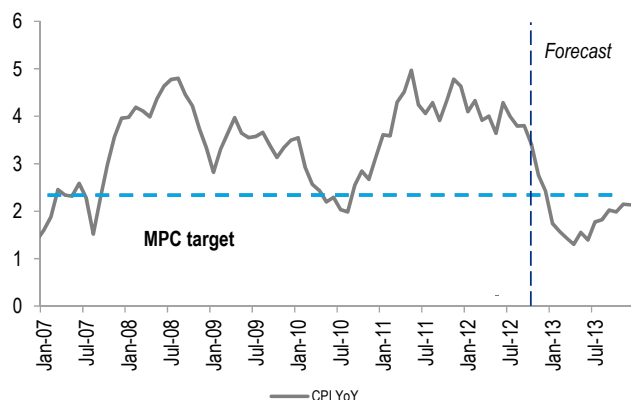
How to respond to economic slowdown?

Contrary to many other central banks in Europe, the Polish central bank (NBP) with its reference rate at 3.75% seems to have plenty room to cut rates to support the economy. Practically all people we met in Warsaw agreed that additional interest rate cuts would make sense in the current environment but they also doubted the MPC would like to keep cutting rates at a fast pace. Over last two months, the Monetary Policy Council has turned substantially more hawkish, dropping from its communiqué a sentence that signaled rate cuts at the next meeting. This happened even despite incoming weak economic growth data and signs of improving inflation outlook. Our view is that the easing cycle has not finished yet but the MPC, having cut rates by 100bps already, wants now to slow the easing cycle and to take a better look at incoming data. This means, however, that deep and quick interest rate reductions are unlikely. Having said this, we expect chances of rates being on hold in March are slightly bigger than chances for a cut. However, after a short pause the MPC will probably resume the easing cycle, thus reacting to a drop in headline inflation towards 1.1-1.3% in April (Figure 14) and to

below-potential economic growth. We expect the base rate to reach 3.25% in 2Q or 3Q vs. 3.75% currently.

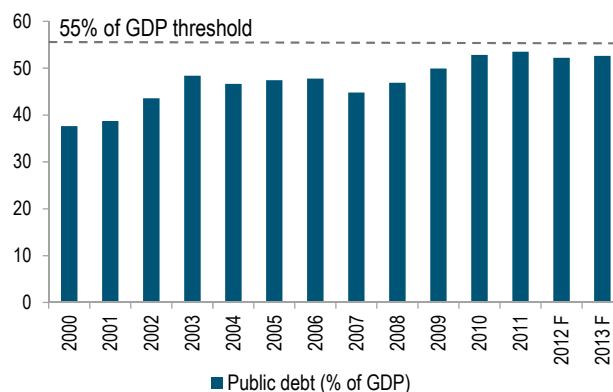
Given a long lag between interest rate changes and the reaction of the economy, we believe currency depreciation might be a potential way to support the economy in the near term. However, it seems the central bank is unwilling to push for weaker currency and some MPC members are ready to keep cutting rates only if this doesn't translate into bigger currency depreciation.

Figure 14. Headline inflation is falling sharply leaving room for additional rate cuts by the NBP



Source: NBP, GUS, Citi Research

Figure 15. We expect Poland's public debt to remain below but close to 55% of GDP



Source: Polish Finance Ministry, Citi Research

In contrast to monetary authorities, the government would probably be happy to provide support to the economy through fiscal easing. However, the room for such a move is limited by the existence of the public debt rule in Polish law that would trigger substantial fiscal tightening if the 55% of GDP debt threshold were broken. According to Finance Ministry and our estimates, the public debt in 2012 was probably close to 52.5% of GDP, leaving very limited space for fiscal slippage (Figure 15). Taking into account that 10% currency depreciation increases debt by roughly 1.5% point, the Finance Ministry needs to be very cautious when thinking about any form of the fiscal stimulus because a mix of even small fiscal easing, further economic slowdown and currency weakening could push debt above 55% of GDP. Faced with such constraints, the Finance Ministry can at best allow automatic stabilizers to work but probably will want to avoid an increase in deficit that would exceed cyclical deterioration. Therefore it seems unlikely that the budget revision that we expect to happen in 2H 2013 would bring substantial stimulus. Instead we expect the deficit to be adjusted to levels consistent with freely working automatic stabilizers.

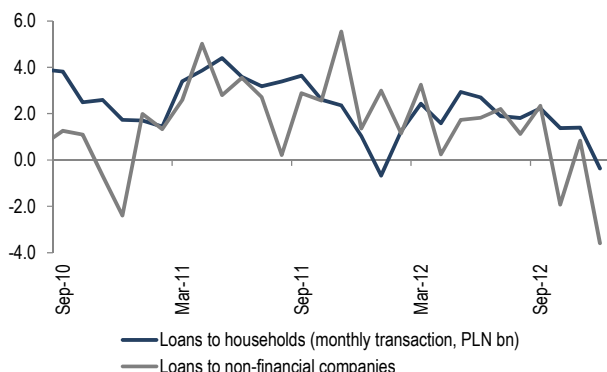
Being unable to increase public debt, the government is trying to provide some stimulus through off-balance sheet operations. Our take from meetings in Warsaw is that the biggest hope is in the 'Polish Investments' (PI) project — a Special Purpose Vehicle that has been created and that is supposed to support important investment projects. The PI is still in its early phase — its CEO has not been appointed yet — and we were unable to get detailed data on how exactly it is going to operate. The general assumption is that the state-owned bank BGK and the SPV will be able to attract private capital and finance long-term investment projects. The PLN 10bn capital injection that will be the base for these projects comes in the form of shares in state-owned companies. According to Polish government this could generate around PLN 40bn (equivalent of 2.4% of GDP) of

financing to be spent on investments. We believe this might turn out to be an important factor driving investments in energy sector, railways or road construction, but given the organizational issues, we believe the impact on GDP growth will not materialize before 2014.

Admittedly, even without 'Polish Investments' being fully up and running, there are large investments in the pipeline, mostly those related to energy and railway sectors. Some of these projects are likely to be financed by EU funds, bank loans or debt issuance, and therefore they don't depend on PI. However, given that railway and energy sector investment account for around 7-8% of total investment, even 15-20% increases in annual terms would add only around 0.3% point to GDP growth in 2013. Although this is a welcome support in the current environment, it is difficult to treat it as a factor that could turn around the unfavourable growth trend.

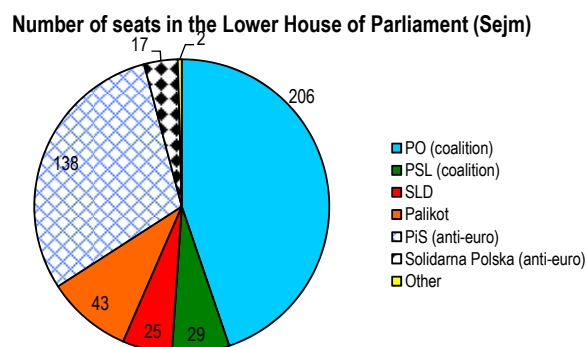
Apart from off balance sheet activities, a likely source of boost for the economy might come from macro-prudential measures. The Polish FSA (KNF) has plans to relax regulations limiting availability of credit to households. Since these regulations were tightened, the pace of lending to households has slowed considerably (Figure 16), exacerbating the negative impact on growth. If KNF realizes its plans, private consumption could receive a boost in 2013 or 2014, bringing growth above 1% YoY.

Figure 16. New lending in Poland slowed substantially, partly due to tighter regulation regarding loans to households



Source: NBP, Citi Research

Figure 17. The pro-euro coalition in Poland doesn't have sufficient number of seats to amend the Constitution



Source: Sejm, Citi Research

Euro adoption

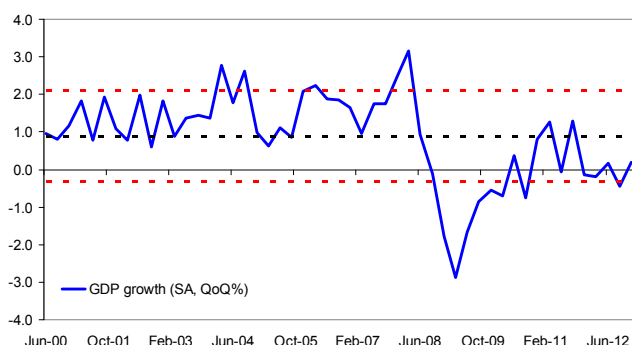
The euro adoption plans have been brought to the fore by recent comments of Polish government officials who have announced a debate on Poland's EMU entry. Last week's meetings in Warsaw reinforce our view that the government is unlikely to push for quick euro adoption (see: [Is Euro Adoption Really On the Agenda?](#)). Instead the government is trying to start a public debate about costs, benefits and preparations for such EMU entry. Obviously apart from the strategic economic rationale behind such a debate, the government also has political motives, hoping that euro membership would give Poland more influence on economic decisions that affect all EU members. However, Poland is not meeting inflation, interest rate and fiscal criteria at the moment. The biggest obstacle seems to be the constitutional amendment that needs to take place before Poland seriously considers joining the EMU in order to allow the ECB to take some of rights that currently belong only to the NBP. Given that eurosceptic opposition parties have more than 1/3 of seats in the Parliament, this means such an amendment would

likely not be possible before 2015 parliamentary elections (Figure 17). This makes us believe that euro adoption would be possible around 2018-2020 at the earliest and possibly later.

Romania: Can the strong start to 2013 be sustained?

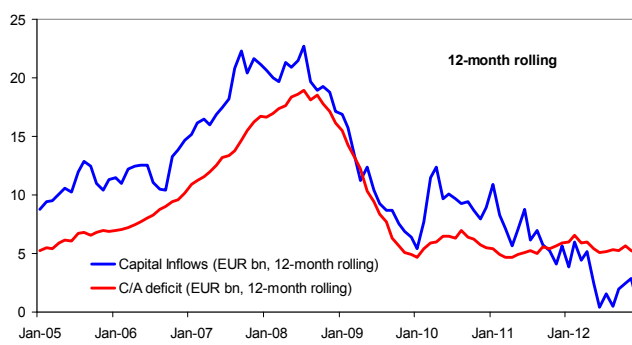
We held a series of meetings on February 15 in Bucharest with senior officials from the Central Bank, the Fiscal Council, the Ministry of Public Finance, the World Bank and market participants. The growth outlook remains subdued, as signs of a meaningful pick-up in domestic demand are yet to emerge (Figure 18). GDP growth projections for this year range between 1.0% and 1.5%, compared with an estimated 0.2% in 2012 (in light of the flash GDP reading for 4Q). Evidence to date, including the January print, lead us to believe that year-end inflation is likely to be at around 4.5%, which is more pessimistic than the NBR's projection (3.5%) in the February Inflation Report. The current account gap is likely to remain in check (at below 4% of GDP), though whether there will be a meaningful pick-up in capital flows this year remains to be seen (Figure 19).

Figure 18. GDP Growth (SA, QoQ)



Source: Haver and Citi Research

Figure 19. Capital Flows (EUR bn, 12-month rolling sum)



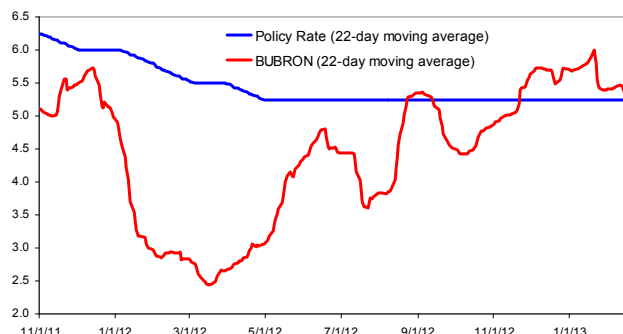
Source: Haver and Citi Research

It is true that there are encouraging signs suggesting that a revival of capital flows is underway. The improved political outlook in the aftermath of the December elections, the NBR's decision to tighten liquidity, which has pushed money market rates above the policy rate, and the inclusion of Romanian domestic bonds in two major emerging markets local currency bond indices have revived foreign investors' interest in Romanian assets considerably. At 19%, the share of non-residents in total debt in January reached an all-time high. This represents a substantial increase compared with 2012 and 2011, when foreign investors' share in total domestic debt stock stood at 13% and 11%, respectively.

However, the uncertainty on the front of the IMF program seems to have increased, in our view. To recap, the current program, which was supposed to expire in end-March, was extended by three months. The authorities are expected to take corrective actions to achieve the objectives of the program, notably as regards the reduction of government payment arrears and public enterprise reform. The IMF team is expected to visit Bucharest in May or June to assess the progress. While the markets seem to have priced in the best-case scenario — completion of the current program and a new arrangement thereafter — in light of our discussions, we now believe that the possibility of not opting for a new program (or the program being declared off track) is higher than before, partly because of the improved financing conditions for the Treasury and increased foreign-investor interest.

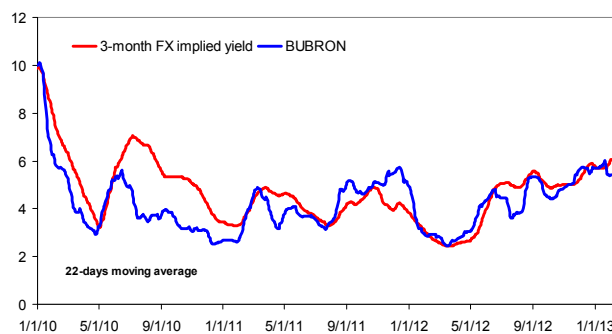
Turning to monetary policy, we believe that the NBR is likely to continue to adjust liquidity in light of the evolution of the leu, while keeping the policy rate unchanged. In our view, despite the difficult recovery prospects, there is not much room for the NBR to ease without hurting the currency (unless capital flows pick up and remain strong). Put differently, while the NBR may push money market rates closer to the policy rate of 5.25%, it is not very likely for the Bank to drive short rates below the policy rate (Figures 20 and 21).

Figure 20. Evolution of the Policy Rate and BUBRON (%)



Source: Bloomberg and Citi Research

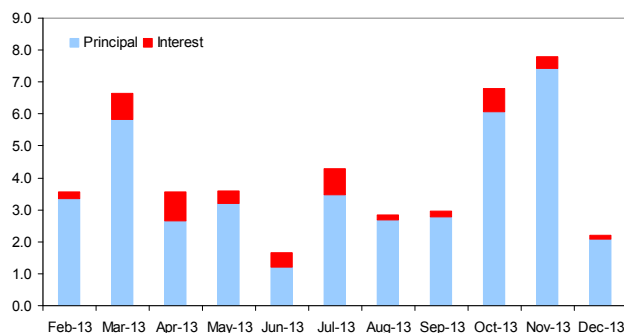
Figure 21. BUBRON and 3-month Forward Implied Yield (%)



Source: Bloomberg and Citi Research Note: 22-days moving average

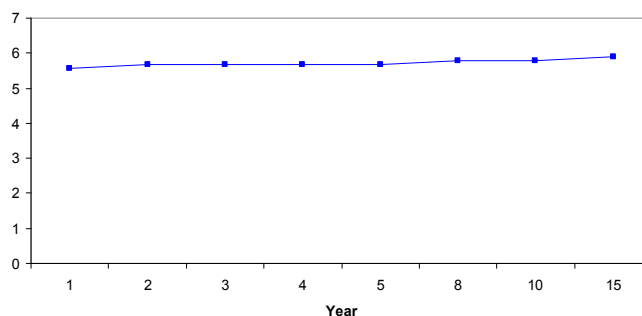
Regarding the bond market outlook, based on our discussions with senior officials, we believe that the Treasury will aim at extending duration from 1.7 years to at least 2 years (on a remaining maturity basis). To this end, the Treasury will likely be more inclined to increase the size of the issuance of 3-5 year paper, while sticking to its program in the case of short-term securities. Moreover, the Treasury currently has strong liquidity buffers (as much as 4 months of gross financing needs) and intends to keep its reserves at comfortable levels. Where do we go from here? In our view, the current flat shape of Romania's yield curve, which is difficult to rationalize on macroeconomic grounds, is largely driven by the strong foreign inflows concentrating on the mid part of the curve (Figure 23). With the likely stabilization of foreign inflows into the bond market, we expect the shape of the yield curve to normalize in 2Q or earlier.

Figure 22. Domestic Debt Redemption Schedule (RON bn)



Source: Ministry of Public Finance and Citi Research

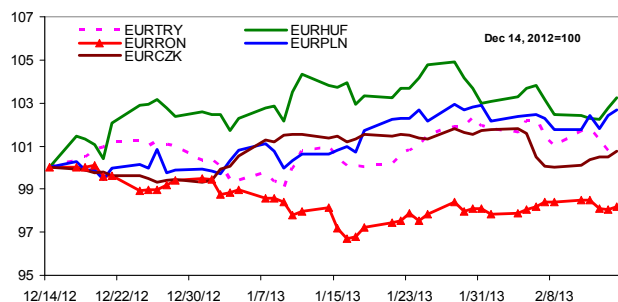
Figure 23. Yield Curve (as of February 18, 2013)



Source: Bloomberg and Citi Research

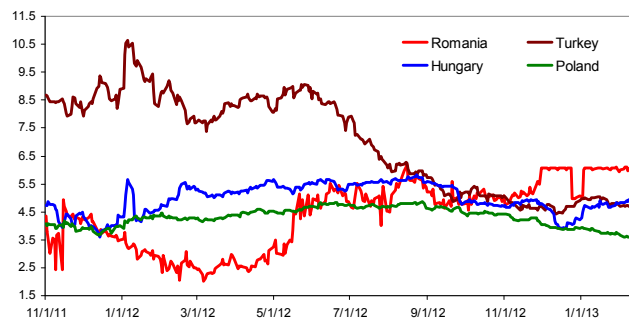
Concerning the FX outlook, the leu has been the best-performing currency in the region since mid-December (Figure 24). The current level of FX implied yields remains attractive and should continue to support the currency in the near-term (Figure 25). Moreover, we believe that there are no major valuation concerns and that the NBR is likely to have a higher tolerance for appreciation this year given the challenging inflation outlook. The risks associated with the IMF program and potential spillovers from the euro area crisis, which continue to overshadow the FX outlook, need to be monitored closely.

Figure 24. Leu vs. Its Peers in the Region (Dec 14, 2012=100)



Source: Bloomberg and Citi Research

Figure 25. Forward Implied Yields : Leu vs. Selected Currencies



Source: Bloomberg and Citi Research

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:

Citibank Europe Plc Hungary	Eszter Gargyan
Bank Handlowy w Warszawie	Piotr Kalisz
Citibank Anonim Sirketi	Ilker Domac; Gultekin Isiklar

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 Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 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 Citigroup/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigroup/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 Büyükdere 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 preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2013 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
