

Economics

21 October 2011 | 9 pages

Euro Area: Sovereign Debt Crisis Update

- **Sunday's Summit Now Not Taking Final Decisions** — With huge ongoing differences between Germany and France, particularly on the question of the increase in the leverage of the EFSF and the second public sector involvement (PSI) deal for Greece, Angela Merkel and Nicolas Sarkozy announced in a press statement that the EU Council meeting of the Heads of State and Government on Sunday would not make final decisions on a “comprehensive package”. **The new schedule is that on Sunday the Summit will discuss the details of the package, while in a second Summit on Wednesday (at the latest) the European leaders would approve the package.** With this procedure, Germany should have time to meet the requirement under German law to get approval in parliament for EFSF operational details. With demands from the opposition parties for the whole parliamentary plenum to decide on the EFSF guidelines, rather than just the budget committee, it is likely that the whole Bundestag probably will vote on the EFSF guidelines including on how to leverage up the EFSF.
- **The schedule** — **today** there will be a Eurogroup meeting, starting at 13:00 London Time, while tomorrow there will be an ECOFIN meeting and a General Affairs Council meeting. **Tomorrow, Saturday**, Ms Merkel and Mr. Sarkozy will have another meeting. There is also a meeting on Saturday (18:30-21:30 London time) of EU leaders belonging to the centre-right European People's Party (EPP) grouping. Currently 17 out of 27 European Council members belong to this grouping: France, Germany, Italy, Luxembourg, Belgium, Ireland, Portugal, Malta, Sweden, Finland, Poland, Slovakia, Lithuania, Latvia, Hungary, Romania, and Bulgaria. European Council President van Rompuy, EU Commission President Barroso and European Parliament President Buzek will also attend. Then on **Sunday**, there will be an EU Council meeting of the heads of State and Government in the morning, followed by an Euro area summit in the afternoon.
- **Comment:** The delay in the approval of the “comprehensive package” highlights the difficulties of finding a compromise between the parties involved. However, with the parties taking more time for negotiations, **we remain confident that there will in the end be an agreement on a package** which includes a leveraged version of the EFSF (probably up to around €1,000bn) to support sovereign bond purchases. There will likely also be a recapitalization of banks, with the backstop facility of funding through the EFSF. In addition, we expect a new PSI with a haircut for Greek debt in the region between 30% and 50%. And there will be a set of new rules regarding the conditions for countries which obtain funding from the EFSF, together with the announcement of growth-enhancing measures. While the package in the end is likely to tick all boxes, **the overall outcome will not solve the sovereign debt and banking problems in Europe and therefore is likely to disappoint markets, in our view.**

Jürgen Michels

+44-20-7986-3294

juergen.michels@citi.com

Guillaume Menuet

+44-20-7986-1314

guillaume.menuet@citi.com

Ann O'Kelly

+44-20-7986-3297

ann.okelly@citi.com

Jaromir Sindel

+420-2-3306-1485

jaromir.sindel@citi.com

With thanks to

Alessandra Gaia

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

Citi Investment Research & Analysis 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.

- The **draft Euro Summit statement** leaked on Thursday contained significant progress in terms of economic and fiscal policy coordination, showing that **the crisis is forcing euro area member states to integrate quicker and further**. It also welcomes the disbursement of the 6th tranche for Greece and stresses the exceptional nature of the private sector involvement for Greece. There were obvious blank spaces for the upcoming decisions by the Eurogroup and Ecofin on the main topics of interest: the strengthening of the monitoring of the Greek program, the PSI, the reinforcement of the banking system, increasing the efficiency of the EFSF, as well as for the full lending capacity of the ESM/decision making procedures.
- Some of the **most relevant policy announcements to improve EU budget coordination and the long-term sustainability of public finances** are: 1) requiring governments to adopt balanced budget rules in national legislation, preferably at the constitutional level, by the end of 2012; 2) requiring that national budgets should be based on growth forecasts produced independently, or, in the event of a consistent upward bias, based on the Commission's forecasts; 3) consultation of the Commission and partners before adopting any major fiscal and policy reform plans; 4) closer monitoring of member states that are in the excessive deficit procedure and of programme countries, with the Commission and the Council able to examine national draft budgets before their submission to the national parliament in order to adopt an opinion, to monitor budget execution and if necessary to suggest amendments in the course of the year; 5) the Eurogroup will be able to adopt a recommendation for a euro area member state to enter into an adjustment programme supported by the EFSF/ESM; 6) in the event of slippages, structures for closer monitoring and coordination of programme implementation will be put into place; 7) Closer cooperation in taxation matters to foster convergence and coordination of euro area economies. Comment: if adopted, **these measures will amount to significant changes in the economic governance and budgetary policy framework for Eurozone countries**. This should further reduce the risk of free riding and should steady the course towards an aggregate budget deficit of less than 3% of GDP.
- **Leverage of the EFSF** — German economics Minister Philipp Rösler in a television interview **ruled out giving the ESFS a bank licence**. In an interview with *Handelsblatt* EU commissioner Olli Rehn also said that using the ECB for refinancing could be problematic, considering the EU constitution. Mr. Rehn also distanced himself from the idea that emerging market countries could fund a euro area rescue through the IMF, because of the *“far-reaching political consequences”*. By providing funding, these countries would *“have an indirect seat at the table of the euro zone”*.
- **New PSI for Greece** – On the PSI for Greece, yesterday's statement from Chancellor Merkel and President Sarkozy demands that talks with the private sector about a new PSI should start immediately.
- **Troika Report on Greece** - According to a draft of the troika report obtained by Reuters, **the EU and IMF are recommending paying out the sixth tranche of aid as soon as possible**, although government debt dynamics are found to be *“extremely worrying”*. According to a Greek newspaper also quoting the Troika, the report states that, although additional government measures on income and spending would enable the country to reach its deficit targets in 2012, this won't happen in 2011. Moreover: *“Greece's economic downturn was significantly stronger than expected, its debt sustainability had deteriorated from six months ago and the mid term growth forecast might need to be cut”* the newspaper said, citing the draft report. Finally, according to *Athens News* the so-called Troika

report was prepared by the European Commission in coordination with the ECB but not with the IMF, which is preparing a separate report.

- **Greek PM Papandreou wins austerity vote, while the 48-hour strike ends in violence** – Greek Prime Minister George Papandreou won the second and final vote on the new austerity measures yesterday. In the 300-seat chamber, 154 lawmakers voted in favour and 144 were against the motion. On the same date the Greek Finance Minister Evangelos Venizelos warned lawmakers they must implement further austerity to “rewrite” Greece’s behaviour. In the mean time the country faced the second day of the 48-hour general strike protesting about the austerity measures. The demonstrations ended in violence.
- **Germany Cuts GDP Growth Forecast** – Yesterday, the Government presented its new GDP growth forecasts. While the government revised up the earlier forecast for 2011 from 2.6% to 2.9%, they revised the 2012 GDP forecast down substantially from 1.8% to 1.0%. Comment: The new forecasts are roughly in line with our own forecasts.
- **France to Cut GDP Growth Forecast?** – *Le Figaro* and *Les Echos* are reporting that **France is preparing to cut its 2012 GDP growth forecast** to below 1.5% instead of the 1.75% baseline used in the budget framework. The choice will be either to announce new spending cuts and/or tax increases by year-end, with a 0.5pt reduction in the forecast requiring the government to find budget savings of at least €5bn. It is unlikely that a reduction in the GDP growth forecast will be made before the middle of next week, primarily because of the priority given to a successful Euro Summit. However, it will likely be done before the G20 summit on 3-4 November. Comment: After the German government nearly halved its 2012 GDP forecast to 1.0% from 1.8%, France is under pressure to do the same. We have been arguing since the presentation of the 2012 budget ([Euro Weekly: ECB and France - Difficult Decisions Ahead, 30 September 2011](#)) that extra savings of between €10-£30bn will have to be found in order to hit the budget deficit target of 4.5% of GDP. This is essential for France to convince the rating agencies and investors that its public finance strategy is sound.
- **Scenarios of rating downgrades** – S&P indicated in a report assessing the capacity of the EU and the IMF to support the euro zone under two possible scenarios – a double-dip recession and a recession with high interest rates – that **S&P would likely lower the credit standing of five European nations, including France, by one or two notches if the region slips into recession and government borrowings increase.** *“France would likely be downgraded to ‘AA+’ from ‘AAA’ because of a deteriorating fiscal position, even if the amount of stress applied remains modest,”* S&P analysts said. It expects borrowing requirements to increase primarily because of increased budget deficits if economic conditions worsen. Comment: This is not the S&P baseline, only a risk assessment of alternative macro scenarios. Nevertheless, given the downside risks to growth and the likelihood of a mild recession in Europe, the likelihood of a negative outlook on France has risen sharply, unless the government were to announce sizeable downward revisions to its GDP baseline and details of the corresponding budget savings.
- **Italian PM Nominates Ignazio Visco as Bank of Italy successor** – Prime Minister Berlusconi nominated yesterday the Bank of Italy Deputy General Director Ignazio Visco to succeed Mario Draghi at the Head of the Italian Central Bank. The nomination letter provides a non-binding opinion before final approval by President Giorgio Napolitano. The nomination was unexpected – in fact, according to previous days’ declarations, current ECB Governing Council

member Lorenzo Bini Smaghi appeared to be the front-runner. In order to rebalance EBC board equilibrium between euro area countries, French president Sarkozy had asked Mr Bini Smaghi to step down from the ECB board to make way for a French candidate, on the grounds that if Italian Mario Draghi replaced French Jean-Claude Trichet as ECB Governor and Mr Bini Smaghi remained on the Governing Council, then Italy would have two members on the Council, but France would have none. Mr Bini Smaghi has so far refused to give up his seat on the Governing Council – his term runs until June 2013.

- **Troika Gives Ireland Good Report Card** – In a statement yesterday, the EU/IMF Troika, having completed their quarterly assessment of Ireland's compliance with its bailout programme, said that Ireland's *"programme implementation continues to be strong"* and that the 2011 fiscal deficit target of 10.6% of GDP is expected to be met. While the Troika recognizes that economic growth in 1H 11 was higher than expected – *"a welcome sign of Ireland's strengthened competitiveness"* – they point out that the slowdown in key trading partners is likely to cool Ireland's export growth, and forecast GDP growth of *"about 1% in both 2011 and 2012."* Earlier in the day, Minister for Finance Michael Noonan had welcomed the outcome as *"successful"* and said that discussions had now moved on to the Budget (due Dec 6). He reiterated once again that the Government intended to reduce the budget deficit to the targeted 8.6% of GDP in 2012. He hoped to achieve this with the already targeted adjustment of €3.6bn, but he added that it might have to be higher (he has been trailing this possibility since the summer). However, Mr Noonan rejected the independent Fiscal Advisory Council's recommendation earlier in the week that an adjustment of €4.4bn be targeted, with a view to reducing the deficit to 1% of GDP by 2015 – he termed this *"a bridge too far."*
- **Slovakia – Coalition continues to govern, backed by constitutional amendment.** Coalition party leaders, including the SAS, agreed to support the government of PM Iveta Radicova (SDKU-DS) until the early election on 10 March next year. Additionally, the political leaders, including the opposition leftwing SMER-SD, agreed to amend the Constitution so as to enable President Ivan Gasparovic to ask the government of PM Radicova to continue as caretaker government after losing a vote of confidence (on October 13). This outcome reflects the complicated political situation. The amendment of the Constitution looks to be necessary, as the political parties have been unable to agree to support another government. Hence, without such a change in the Constitution, the President would have had to formally recall the government of PM Radicova, which would have required a confidence vote - and any new government would likely have problems in winning a confidence vote.
- **Slovakia's Position at the Upcoming European Summit:** PM Radicova will lead Slovakia at the forthcoming EU summit. We would expect Slovakia to support: i) the recapitalization of banks from market and national sources rather than from the EFSF mechanism; ii) more hawkish fiscal governance; iii) a larger PSI haircut on Greece debt. But it seems unlikely to support (or at least its position is unclear on) i) further cash/guarantee enlargement of the EFSF (there have not been yet any solid discussions in Slovakia on leveraging the EFSF); ii) Official sector involvement in a haircut of Greek debt as it would put Slovak guarantees in the EFSF at a risk that is unlikely to be acceptable to the government before the early election (although Slovakia is not involved in the first bailout package of Greece); iii) closer tax harmonisation. However, Slovakia's bargaining position is likely to be weak until the early election.

- **Slovakia's Parliament Approves Bank Levy for the Special Fund.** The tax will be 0.4% on corporate deposits and should bring some €80mn into the special fund, part of State Assets, to cover costs associated with the financial crisis in the banking sector (Pravda, 20 October). Slovak banks had profits of above €400mn in 1H11. As the banks hold around €500mn of Greek bonds (probably concentrated in a few banks) and slightly above €2bn of GIIPS debt (Greece, Ireland, Italy, Portugal, Spain), the special fund is likely to be used as a source for possible bank recapitalizations. However, the opposition leftwing SMER-SD, which is likely to win the early election, wants to increase the tax to 0.7% (€180mn) and to use these tax revenues as part of the budget.

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 Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 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 www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

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

Citigroup Global Markets Ltd	Jürgen Michels; Guillaume Menuet; Ann O'Kelly
Citibank Europe plc Czech Republic	Jaromir Sindel

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 Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA 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 Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use

smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA 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.citigroupgeo.com/geopublic/Disclosures/index_a.html.

This CIRA 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 CIRA. 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 Citigroup 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. Foro Buonaparte 16, 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 Global Equities Online (GEO) website. If you have questions regarding GEO, 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 110-180, 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 **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. 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 **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 1 Temasek Avenue,

#39-02 Millenia Tower, Singapore 039192, 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 Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski 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 CIRA 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 CIRA's Products can be found at www.citigroupgeo.com.

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), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA 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. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by CIRA 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.

© 2011 Citigroup Global Markets Inc. Citi Investment Research & Analysis 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, disseminated 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
