

## Special Report

## Global Economic Outlook

## No Major Surprises in Global Recovery

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## Related Research

- *Contagion, Support and Euro Area Sovereign Ratings* (December 2010)
- *Sovereign Data Comparator* (December 2010)
- *Macro-Prudential Risk Monitor* (November 2010)
- *Global Economic Outlook* (October 2010)
- *Euro Area Sovereign Review: Fiscal Consolidation Yet to Begin in Earnest* (September 2010)

## Revisions to GDP Forecasts Since Oct 2010

(GDP pp)	2010	2011	2012
US	0.1	0.6	0.6
Euro area	-0.1	-0.1	0.1
Japan	0.2	-0.1	0.0
UK	0.1	-0.3	-0.1
MAEs	0.0	0.2	0.3
BRICs	0.2	0.1	0.1
World	0.2	0.1	0.3

Source: Fitch

## Summary

Despite significant financial market volatility and economic policy uncertainty, the global economic recovery is proceeding as Fitch Ratings expected. Its pace is uneven across countries and regions, and it is largely due to accommodative policy support and emerging-market dynamism.

Fitch has marginally revised up its projections for world growth compared with the projections set out in the October version of the Global Economic Outlook (GEO; see under *Related Research*): to 3.4% for 2010 (from 3.2% in the October 2010 GEO), 3.0% for 2011 (from 2.9%), and 3.3% for 2012 (from 3.0%).

Major advanced economies (MAEs) performed in line with expectations, despite a rebalancing of growth momentum in Q310. In Q210 growth accelerated considerably in Europe and the UK compared with the previous quarter, and slowed for Japan and the US. In Q310 growth picked up in Japan and the US, and moderated in Europe. Fitch still projects MAE growth of 2.4% for 2010, while projections for 2011 and 2012 have been revised up marginally to 2.3% and 2.5%, respectively.

In contrast to the mixed performance of MAEs, emerging markets continued to outperform expectations. Fitch raised its 2010 forecasts for China, Brazil, and India due to still buoyant economic growth. However, the agency revised down its Russian forecast as the pace of recovery proved weak, partly as a result of the severe drought and heatwave in the summer. Fitch forecasts growth of 8.4% for these four countries (the BRICs) in 2010, and 7.4% for each of 2011 and 2012.

In the US, the likelihood of a double-dip recession has receded considerably and Fitch has raised its growth forecasts by 0.6% for each of 2011 and 2012, bringing estimates to above-trend growth levels of 3.2% and 3.3% for 2011 and 2012, respectively. In line with the revised growth outlook, unemployment is now expected by Fitch to moderate, to 9.1% in 2011 and 8.7% in 2012.

Accommodative policy measures extended by authorities have provided a boost to Fitch's growth outlook, in particular the extension of a number of tax measures and introduction of a second round of quantitative easing (QE2) in November. High-frequency activity has also turned more positive, reflecting strength in private consumption and corporate profitability. Despite the improved outlook, the agency's view has remained that the recovery will continue to be mild by historical standards in light of still weak labour and housing markets.

Fitch attributes Japan's strong Q310 performance to a temporary increase of consumption ahead of the expiry of stimulus measures. Still-weak consumer confidence indicators lead Fitch to expect some of the Q310 surprise will be "paid back" in subsequent periods, while persistently weak domestic demand continues to weigh on growth prospects in the medium term. Fitch's forecasts incorporate a slowdown of growth to around the long-term average in 2011 and 2012. The agency expects deflation to persist into 2012 as weak capacity utilisation restrains prices, and does not anticipate a radical change of policy course from the Bank of Japan.

In the euro area, the agency has stated that although economic challenges facing the peripheral economies are significant, the severity of the market turmoil is not warranted by underlying fundamentals. Still, heightened volatility has eroded the growth outlook for a number of countries, resulting in a downward revision of some of Fitch's growth forecasts in the area. Conversely, the agency has revised up its

outlook for Germany due to its view that secular growth is now emerging along with the expected cyclical rebound following the sharp contraction in 2009.

Fitch revised down its forecast growth in the UK over the medium term, reflecting the agency's view that the recovery will be even slower than expected in 2011 and 2012 due to a weakening of confidence in the context of heightened volatility in Europe and plans for fiscal consolidation at home.

Despite fiscal consolidation starting for most countries in 2011, the pace of tightening (especially for MAEs) is temperate and should still support a moderate economic recovery. According to Fitch's projections, average budgetary adjustment for 'AAA' sovereigns from 2010 until 2012 is only 1.7% of GDP. Although many countries have front-loaded (eg, the UK) or evenly paced (eg, Germany and Japan) fiscal adjustments, some of the largest countries (eg, the US), have back-loaded adjustments, providing further impetus to a global recovery.

The interest rate outlook for MAEs remains subdued, as Fitch now expects monetary policy authorities to keep rates looser for longer than forecast in the October GEO.

### Global Forecast Summary

(%)	2009	2010f	2011f	2012f
<b>GDP growth</b>				
US	-2.6	2.8	3.2	3.3
Euro area	-4.0	1.7	1.6	2.1
Japan	-5.2	3.2	1.5	1.7
UK	-5.0	1.8	2.0	2.4
Average <sup>a</sup>	-3.7	2.4	2.3	2.5
<b>Inflation</b>				
US	-0.3	1.6	1.8	1.9
Euro area	0.3	1.6	1.8	1.8
Japan	-1.4	-0.9	-0.1	0.1
UK	2.2	3.3	3.2	2.6
Average <sup>a</sup>	-0.1	1.3	1.6	1.6
<b>Interest rates</b>				
US	0.25	0.25	0.31	1.00
Euro area	1.28	1.00	1.25	1.50
Japan	0.11	0.10	0.11	0.11
UK	0.64	0.50	0.63	1.75
Average <sup>a</sup>	0.61	0.50	0.62	1.09
<b>Assumptions</b>				
Oil (USD/barrel)	64.0	78.0	82.0	85.0
JPY/USD	93.6	87.6	82.3	82.3
EUR/USD	0.72	0.75	0.73	0.73
GBP/USD	0.64	0.65	0.62	0.62
<b>Memo: GDP growth</b>				
Emerging markets	0.9	6.5	5.5	5.6
BRICs <sup>a, b</sup>	4.6	8.4	7.4	7.4
World <sup>a</sup>	-2.5	3.4	3.0	3.3

<sup>a</sup> Weighted by 2005 GDP at market exchange rates

<sup>b</sup> Brazil, Russia, India and China

Source: Fitch

### Country Detail

#### US

The likelihood of a double-dip recession has receded considerably, as a result of incoming data that has turned more positive, and of accommodative policy measures adopted by the authorities. Sentiment has improved; the Federal Reserve's latest Beige Book has confirmed growth in manufacturing, while corporate profitability reached a four-year high in Q310. GDP growth in Q310 also beat consensus (and Fitch) estimates, coming in at 0.6% quarter on quarter (qoq). It was pulled up by faster-than-expected growth in consumption and investment. Fitch has marginally upgraded its growth outlook for 2010. Strong retail sector performance has pushed up the agency's Q410 forecast for consumption, raising its full-year 2010 estimates marginally to 2.8% (from 2.7%).

Fitch has also raised its forecast for 2011 to 3.2% (from 2.5%) and for 2012 to 3.3% (from 2.6%). This is largely due to the tax relief measures enacted by the US administration on 17 December 2010. Fitch considers that the measures provide a significant boost to consumption at an appropriate juncture in the economic recovery. However, the agency continues to expect a number of headwinds, which are likely to require a number of years to resolve, to challenge the growth outlook, including the ongoing effect of deleveraging as bank lending has continued to decline, a slow recovery in the labour market, and a weak housing market.

Although a rise in private sector-employment continues, the overall labour market recovery is still slow, with high-frequency data painting a mixed picture. The pace of net job creation has improved, with jobless claims registering their fifth consecutive weekly decline in December (four-week moving average). However, the November employment report disappointed, with payrolls rising by only 39,000 (against expectations of more than 100,000 in line with previous months). The unemployment rate jumped to 9.8% from 9.6% in November, including a rise in structural unemployment. Fitch regards this as a peak level, and expects the rate to moderate quickly as the higher projected growth rate begins to translate into job creation. Fitch has therefore adjusted down its unemployment forecast for 2011 to 9.1% and that for 2012 to 8.7%.

Housing market weaknesses have also persisted. Housing prices fell for three consecutive months to October, as indicated by the CoreLogic price index, while the backlog of mortgage foreclosures could further push them down. New home sales also continued to slide in November, to the third-lowest level recorded in the history of the series, after the readings in August and May. However, pending home sales in October rose 10.4%, and single-family housing starts have been stabilising in the fourth quarter, pointing to a potential thawing of market conditions. Overall, Fitch believes the situation will continue to be weak as long as there is an oversupply of real estate in the market.

In light of these weaknesses, the Federal Reserve introduced the USD600bn QE2 in November, triggering a wave of criticism about its effectiveness. Although Fitch acknowledges QE2's potentially destabilising effect on inflationary expectations and global capital flows, it considers that the current low rates of inflation and continued weaknesses in the economy justify more monetary easing. It appears that QE2 has already had an impact on the market (bonds and equities have rallied and the dollar has weakened since the Federal Reserve first hinted at QE2 in August), and confidence (consumer confidence reached a three-year high in November). It remains to be seen whether this will translate into growth in lending.

On 6 December 2010 President Obama agreed to a number of proposed tax relief measures including the two-year extension of: tax cuts, including for high-earning Americans, insurance benefits to the unemployed, and credits for low-income families. The measures also included a new cut in payroll taxes for workers, and a number of child, education, and investment tax incentives aimed at boosting growth. The proposal was signed into law on 17 December 2010. According to Congressional Budget Office estimates, the measures equate to a USD858bn package. This is equivalent to around 2.6% of GDP for each of 2011 and 2012, with the total cost (from 2011 until 2020) equivalent to around 5.5% of GDP.

By further postponing fiscal consolidation plans, the fiscal stimulus plan put more pressure on US public finances. However, Fitch believes the damage could be contained as long as the measures remain targeted and temporary (ie, expire after two years). The agency regards the potential positive effect on disposable incomes and consumer sentiment to be highly supportive of a still-fragile US recovery. Although the headline cost of the measures would be around 2.6% of GDP in 2011 and 2012, the agency expects the potential deterioration of the deficit to be lower due to the likely rise in taxable receipts resulting from stronger growth (see Fitch's

forthcoming “*Sovereign Review*” for more detailed discussion of QE2 and the proposed tax cuts).

Fitch has maintained its interest rate forecast, with the policy interest rate held at 0.25% until Q411. With core inflation at the lowest level since 1957, the Federal Reserve is likely to complete its QE2 programme. However, with the approval of the tax stimulus programme, and corresponding rise in growth estimates, the Federal Reserve is unlikely to extend QE2 beyond the stated period.

### Euro Area

In Q310 the euro area underperformed Fitch’s expectations, with quarterly growth of 0.4% against the agency’s projected 0.7% rate. Stress in the peripheral economies spiralled, despite accelerated consolidation plans by many governments and the introduction of the European Stability Mechanism. In its Comment “*Contagion, Support, and Euro Area Sovereign Ratings*” (see under *Related Research* on the first page), Fitch stated its opinion that although the structural economic and fiscal challenges facing several countries in the euro area are significant, the severity of the market volatility is not warranted by the underlying fundamentals. Even so, the deterioration in market access and funding conditions for several governments is eroding the growth outlook in a number of ways.

- The rising cost of borrowing for sovereigns, banks and corporates, and in some cases a reduction in the supply of funding, will keep credit growth muted.
- Strengthened fiscal consolidation will reduce domestic demand and employment.
- Deteriorating consumer and business confidence puts downward pressure on private consumption and investment.

As a result, Fitch has revised down its growth forecasts for some of the peripheral economies including Spain, Ireland, Greece, and Italy. However, Germany has continued to outperform, prompting another upward revision to its growth forecasts. France has performed in line with Fitch’s expectations. Overall, Fitch has marginally reduced its forecasts for the euro area, to 1.7% in 2010 and 1.5% for 2011. For 2012, the agency increased its growth outlook to 2.1%.

With the European Central Bank operating a supportive monetary policy in order to ease liquidity conditions, Fitch expects the policy rate to remain unchanged at 1% until at least Q311.

### Germany

Continuing to serve as a growth engine for the monetary bloc, Germany registered solid growth of 0.7% qoq in Q310. This represented a sharp, but expected, decline from the 2.3% quarterly growth rate in Q210. Growth in Q310 was balanced between domestic demand – contributing 0.4 percentage points (pp) of growth – and net exports (contributing the remaining 0.3pp). Domestic demand was driven largely by private consumption, which recorded its third consecutive quarterly gain (for the first time since 2006), reflecting higher employment levels and disposable income growth.

For 2010, Fitch retains its growth estimate at 3.6%, based on its expectation that growth in the final quarter of the year will match that in the third (0.7%). This will be driven mainly by robust consumption, as the contribution of exports should slow with the cooling of the global trade recovery. The agency regards this as likely due to record consumer confidence, which in November reached the highest level in more than three years.

Fitch has revised upward its medium-term outlook for German growth, with 2011 growth now expected at 2.3% (compared with 2.1% previously) and 2012 growth now forecast at 2.4% (compared with 1.9% previously). The revisions are based on

the agency's view that secular growth is emerging, alongside a cyclical rebound after a sharp contraction in 2009. Structural reforms in the first half of the decade that improved international competitiveness and Germany's comparative advantage in high-quality manufacturing and investment goods leave it well placed to benefit from a global recovery.

Externally, expected weakness in the euro and robust emerging-market growth will continue to boost exports, albeit at a more moderate pace than in 2010 due to a cooling of the global trade recovery. In particular, exports to the Chinese market are growing as a proportion of total German exports, with exports to China rising throughout the recession despite a decline in those to other destinations.

Domestically, although it is in its early stages, a rebalancing of growth components is emerging, with domestic demand (excluding inventories) contributing more than half of growth during 2010. This is due to the record pace of job creation in manufacturing, fuelling the lowest unemployment since German reunification and a corresponding increase in consumption. Business confidence has also been steadily rising, reaching a record high in November and supporting an outlook of strong investment growth. Fitch expects this shift to be sustained, with domestic demand forecast to contribute around 52% of growth in 2010, 2011, and 2012.

A further deterioration in prospects in the euro area represents a material downside risk to Fitch's forecasts.

### *France*

Growth in France, Europe's second-largest economy, is on track and is projected to be 1.5% in 2010, 1.9% in 2011, and 2.2% in 2012, only marginally higher than previous estimates (at 1.4%, 1.8%, and 2.1%, respectively). The forecast has most recently been supported by a pick-up in the manufacturing purchaser's index in November, when it reached its highest level in 10 years. Consumer confidence was also up for the fourth consecutive month in November, although it remains below its long-term average.

### *Italy*

Italy underperformed the October GEO forecast, registering growth of 0.3% in Q310 compared with an expected 1.1%. The underperformance was a result of a stronger-than-projected retrenchment in government spending and negative net trade contribution. This has led Fitch to adjust the 2010 and 2011 estimates down to around 1%. The agency revised up the 2012 estimate to 1.5% on the view that the recovery will eventually gather pace in the shape of a cyclical rebound.

### *Spain*

Although Spain performed in line with Fitch's projection of flat growth in Q310, growth components disappointed, with consumption, investment, and government spending all declining in Q310. The decline in consumption reflected a rebalancing effect after consumers rushed to spend in Q210 ahead of a VAT rise on 1 July. However, the 3% qoq drop in investment was mainly the result of the ongoing structural adjustment in Spain's housing sector. Fitch expects investment to continue to decline rapidly as the housing market adjusts.

Externally, the 5% decline in imports more than offset the 0.1% rise in exports, contributing to a positive net trade contribution to growth. For 2010 as a whole, Fitch has maintained its forecast of a GDP contraction of 0.3%, and has further revised its 2011 and 2012 growth outlook by 0.2% each (to 0.5% and 1.6%, respectively).

### *Japan*

Persistently weak domestic demand and reliance on net trade against the backdrop of an anaemic global recovery continue to weigh on Japan's short- and medium-term economic prospects. Fitch has made only marginal revisions to its Japan

forecasts, raising expected 2010 GDP growth to 3.2% from 3%, while revising 2011 growth down to 1.5% from 1.6%, after Q310 growth came in at 1.1% against the agency's expectation of 0.6%.

Consumption was surprisingly strong in Q310. The agency believes this was related to the pending expiry of a stimulus measure. It expects stronger consumption to be offset by weaker spending in subsequent periods. Consumer confidence has weakened since June on the government's own survey-based measure, weighing on the outlook for consumption. However, the Diet passed a further stimulus package worth 1% of 2011 GDP in November, which should partly offset the impact of the expiry of the previous stimulus.

The government's recently proposed 5pp cut in corporate taxes is intended to support investment. However, weak capacity utilisation and prospects for a moderation in exports raise doubts about the potential for investment to rebound. Net trade contributed just 0.1pp to growth in Q310, down from 0.4pp in Q210. The impact on export growth of the fading of the bounce-back in world trade has been reinforced for Japan by 8.3% nominal effective appreciation of the yen by end-October 2010 from end-2009. Further sustained yen appreciation is a downside risk to Fitch's forecasts. The agency does not expect a change of policy from the Bank of Japan, such as adoption of a formal inflation target, and forecasts deflation to persist into 2011.

## UK

The UK's Q310 GDP outturn was 0.2% better than projected in the October GEO, at 0.8% qoq, still largely due to strong export growth and inventory accumulation. In particular, the manufacturing recovery is under way, with recent surveys indicating continued expected growth during 2011. Although Fitch has shifted its growth forecasts to a marginally higher rate in 2010 (to 1.8%), it has revised the growth outlook for 2011 down from 2.3% to 2.0%, and for 2012 down from 2.6% to 2.4%. This downward revision reflects the agency's view that despite positive growth surprises, confidence continues to be dampened by a number of factors.

First, the ongoing volatility surrounding euro area sovereigns and the UK authorities' planned fiscal consolidation programme are weighing on consumer and business expectations. In Q310 domestic demand growth slowed more than expected, with consumption growth dropping from 0.7% qoq in Q210 to 0.2% qoq in Q310 (compared with Fitch's forecast of 0.6%). Although the agency expects a consumption pick-up around end-2010, consumer spending is likely to remain moderate as uncertainty lingers around employment and the general economic outlook. The VAT increase to 20% in January 2011 will slow consumption further.

Second, the persistence of tight lending through Q310 will continue to weaken activity. This was demonstrated by the British Bankers Association report in October, which showed declines in both the number of mortgages approved and net consumer credit. Although the most recent reading of the business expectation index shows it rising to its highest level since June, this continues to be well below the long-term average. Businesses remain cautious about making significant investments in new machinery or hiring permanent employees.

Third, much growth in Q210 and Q310 was generated from stock building. This is unlikely to continue at the same pace in 2011.

Inflation has remained higher than the official 2% target throughout 2010, rising to 3.3% in November. Fitch now expects inflation to edge even higher in 2011 due to higher oil and food prices, the pass-through of higher import prices due to the depreciation of Sterling, and the effect of the VAT increase to 20% in January 2011. The agency therefore considers another round of quantitative easing by the Bank of England to be unlikely. However, Fitch's downward growth revisions for 2011 and 2012 have prompted an adjustment to its interest rate expectations. The agency

**Growth in the BRICs**

(%)	2009	2010f	2011f	2012f
Brazil	-0.2	7.6	4.5	5.0
Russia	-7.9	3.7	4.3	3.8
India <sup>a</sup>	7.0	8.7	8.5	8.2
China	8.7	10.0	9.0	9.0

<sup>a</sup> India forecasts represent fiscal year, whereas 2011 = FY12, 2012 = FY13, etc  
Source: Fitch

now expects rates to stay lower for longer, with the policy rate steady at 0.5% until Q411 (previously Q211).

**Brazil, Russia, India and China****Brazil**

Fitch has increased its 2010 real GDP growth forecast for Brazil to 7.6% from 7%. Supportive economic policies, continued high consumer and business confidence, a recovery in credit growth and strong labour market conditions are underpinning Brazil's favourable economic performance. Unemployment has reached a record low of 6.1% (not seasonally adjusted), while the wage bill has continued to grow by 7%, underpinning the healthy dynamics for private consumption. Investment has also rebounded strongly in 2010, making the economic recovery broad based.

However, the external sector represents a drag on growth, with imports recovering more strongly than exports due to burgeoning domestic demand. Fitch expects growth to decelerate in 2011 as the effects of the 2010 monetary tightening and the withdrawal of counter-cyclical fiscal measures feed through the economy and external demand weakens. Fitch forecasts Brazil's growth to reach 4.5% growth in 2011 and that it will be underpinned by a healthy growth in domestic demand.

IPCA inflation has begun to increase and Fitch forecasts it to reach more than 5.5% in 2010 (above the middle point of the 4.5% +/-2% target range). Strong domestic demand is creating inflation pressure despite the appreciation of the real, which has contributed to controlling prices. The agency's inflation expectations for 2011 remain above the middle point of the target range, highlighting the challenges the new administration faces in reining inflation back towards the target. Fitch also expects Brazil's current account deficit to increase steadily in the face of weaker demand and continued high import growth.

On 31 October 2010 Dilma Rousseff of the ruling Partido dos Trabalhadores (PT) coalition won the presidential elections in the second round. She will take office on 1 January 2011. It remains to be seen how she positions her administration to push for the much-needed fiscal tightening and structural reforms to improve the prospects for well-balanced growth.

**Russia**

The pace of recovery has been relatively weak in Russia, with GDP growth slowing to 2.7% yoy in Q310 from 5.2% in Q210, falling 1% qoq. This partly reflected the loss of output associated with the summer's severe drought and heat wave, which should be largely temporary. However, the country has experienced net private sector capital outflows in 2010. Fitch forecasts the Russian economy to grow by 3.7% in 2010, 4.3% in 2011 and 3.8% in 2012.

Nevertheless, the recovery appears to be fairly balanced, with private consumption, gross fixed capital formation and exports all rising in H110. The recovery in oil prices, rising real incomes, the increase in private-sector savings and the rebuilding of balance sheets provide a foundation for growth. However, Russia's poor business climate and adverse demographics (and its higher income level) mean that growth is likely to be weaker than in its fellow BRICs.

CPI inflation picked up to 7.5% in October from a record low of 5.5% in July, partly reflecting higher food prices. Fitch forecasts annual average inflation of 7.7% in 2011 and 7% in 2012.

**India**

Fitch has revised up its forecast for India's GDP growth to 8.7% for financial year ending March 2011 (FY11) from 8.5%, as economic activity has proved more buoyant than previously expected. GDP rose 8.9% yoy in Q310, identical to the Q210 reading, underlining the strength of the economy.

A breakdown of GDP by expenditure shows that economic activity remains broad based, with consumption (both private and public sector), fixed investment and exports all registering high single-digit growth. Against such a robust economic backdrop, inflationary pressures remain pronounced. Wholesale price inflation rose 8.5% yoy in October. Although this is below the recent peak rate of 11.0% yoy in April, the Reserve Bank of India (RBI) still faces a battle to anchor inflation expectations – its October survey showed households expect inflation to rise to 11.9% yoy by June 2011.

With a strong outlook for both growth and inflation, Fitch expects the authorities to continue tightening policy in the coming quarters. The agency expects the RBI to continue raising its key policy rates in early 2011, and that the government will deliver some fiscal consolidation when it announces its FY12 Budget in February 2011 (Fitch projects the general government budget deficit to narrow to 8% in FY12, from 10.1% in FY11). As a consequence, Fitch maintains its forecast for India's GDP to grow at a more moderate pace of 8.5% in FY12 and 8.0% in FY13, with inflation easing to an expected average 6.5% in FY12 from 8.5% in FY11.

The agency expects the current account deficit to widen to 3.5% in FY12 from 3.3% in FY11, but does not expect India to encounter external funding difficulties. A more concerning risk for the country will be if the authorities fail to get a handle on inflation in time, leading to overheating followed by a sharper slowdown.

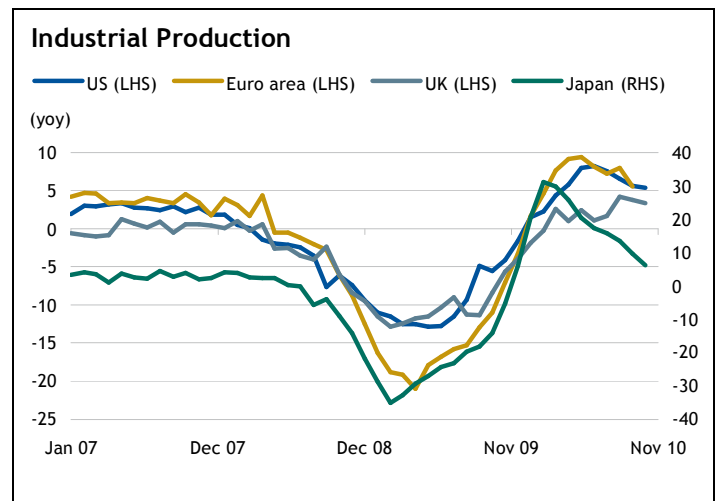
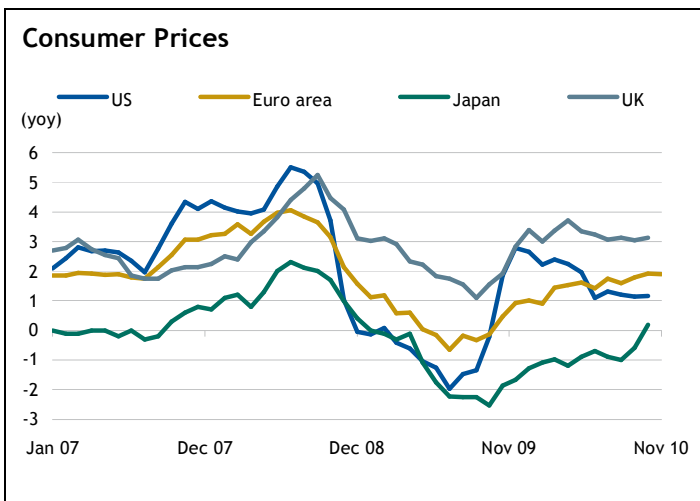
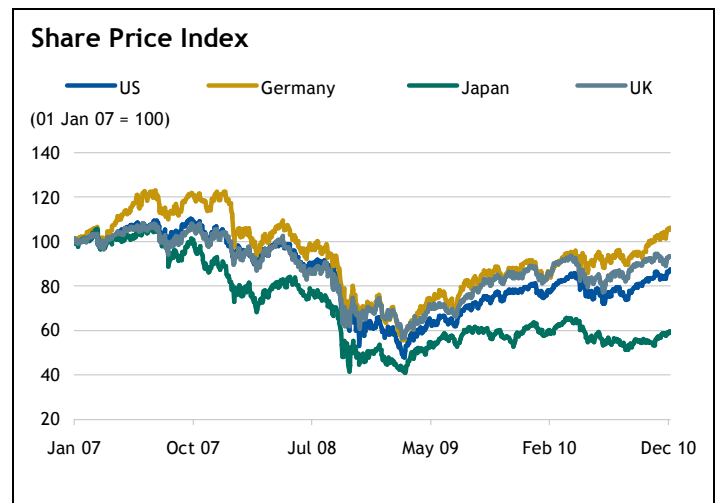
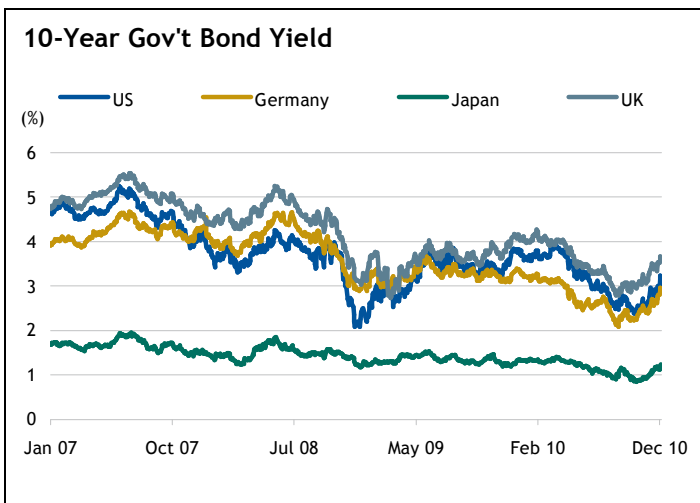
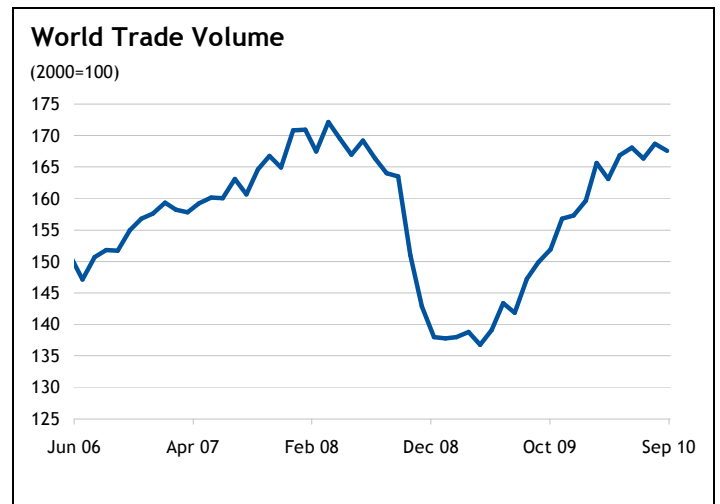
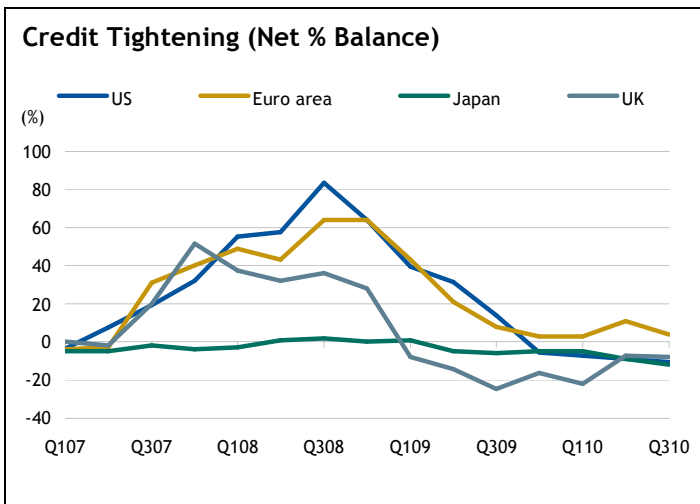
### *China*

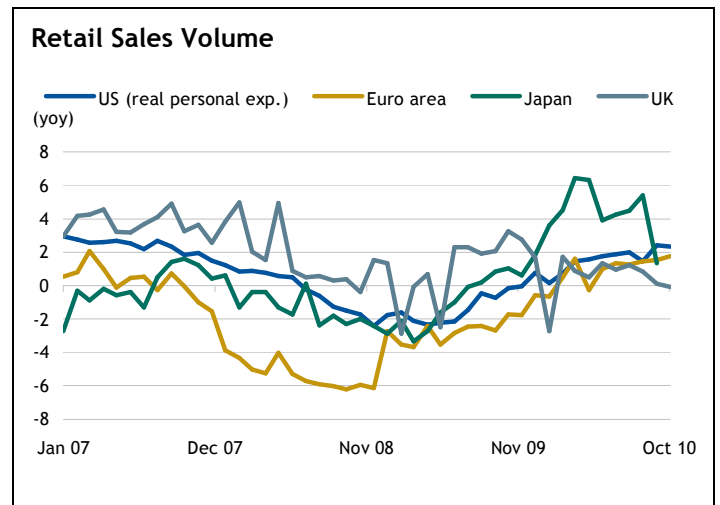
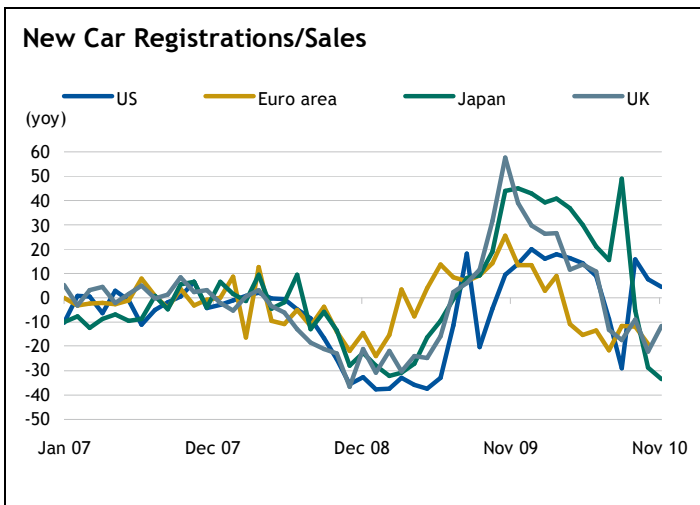
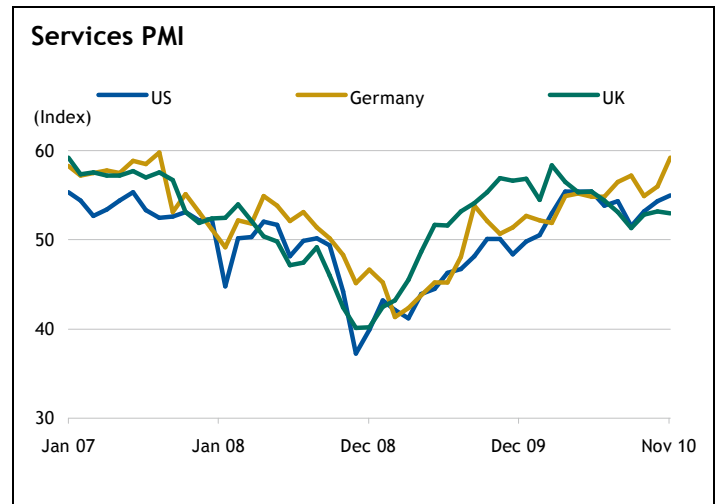
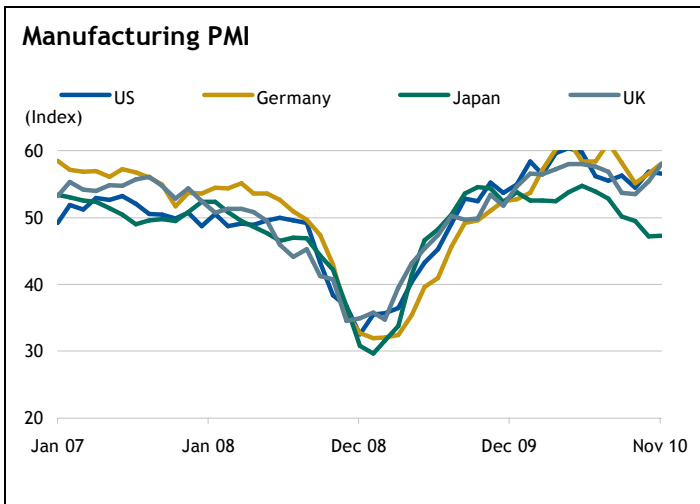
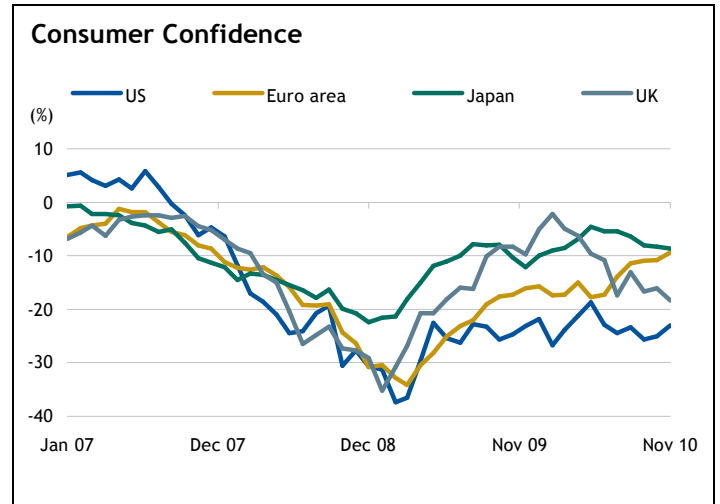
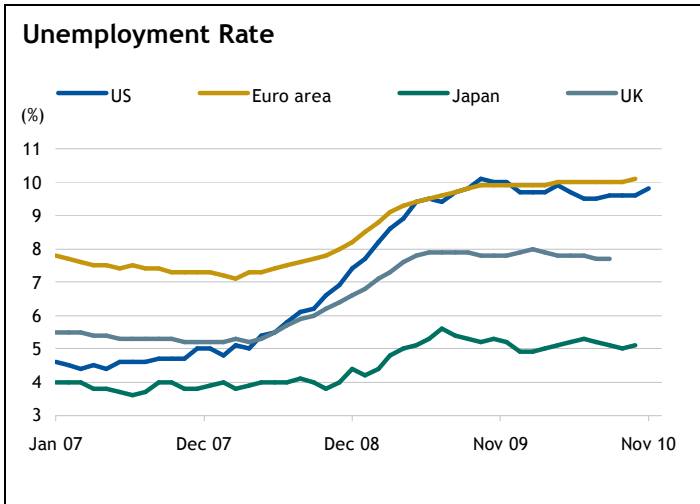
Fitch has marginally revised up its forecasts for China's GDP growth from those in the October 2010 GEO to 10% from 9.7% for 2010, 9% from 8.6% for 2011, and 9% from 8.7% for 2012. Growth was 9.6% yoy in Q310, down from 10.3% in Q210, as the authorities acted to cool credit growth and contain inflationary pressure – consumer price inflation reached 5.1% yoy by November 2010.

Retail sales growth was 18.4% yoy for January-November 2010, up from 15.3% for the same period in 2009, while the consumer confidence index strengthened. However, Fitch expects the impact of inflation on real incomes to dent consumption in Q410 and into 2011. The Politburo amended its guideline on monetary policy to "prudent" from "appropriately loose" at a December meeting. Nevertheless, the agency does not expect sharp rises in interest rates or the Chinese yuan (up just 2.6% since an announcement of greater exchange-rate flexibility in June) as the authorities are likely to maintain a strong focus on growth, and has raised its forecast for 2011 annual average inflation to 4.2%, from 3.5% in 2010.

Fitch expects China's growth over the forecast period to be driven by domestic demand, with the current account surplus projected to narrow modestly to 3.9% in 2011 from 4.3% in 2010.

## High-Frequency Economic and Financial Data





Source: Automobile Dealers Association (Japan); Bank of England; Bank of Japan; Bloomberg; Bureau of Labor Statistics; Cabinet Office (Japan); Census Bureau; Conference Board; Datastream; Department of Commerce; European Central Bank; Eurostat; Federal Reserve; HM Customs and Excise; Ministry of Economy, Trade and Industry; Ministry of Finance (Japan); Ministry of Internal Affairs & Communications; OECD; Office for National Statistics; Society of Motor Manufacturers and Traders; Statistics Bureau (Japan); Netherlands Bureau for Economic Policy Analysis

## Appendix

### US

Change on previous period unless stated (%)

	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Non-farm payrolls (s.a. monthly change, 000)	House prices <sup>a, b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	0.0	-0.3	-4.6	2.5	6.0	-2.6	-3.3	5.8	-302	-9.2	3.8	2.08	3.6
2009	-2.6	-1.2	-15.0	1.8	-9.5	-13.8	-9.3	9.3	-395	-11.9	-0.3	0.25	3.2
Q409	1.2	0.2	-0.5	-0.2	5.6	1.2	1.7	10.0	-90	-5.5	1.5	0.25	3.5
Q110	0.9	0.5	0.2	-0.1	2.7	2.7	1.7	9.7	87	-0.9	2.4	0.25	3.7
Q210	0.4	0.5	4.1	0.6	2.2	7.5	1.7	9.7	190	1.5	1.8	0.25	3.5
Q310	0.6	0.7	0.8	0.7	1.5	4.0	1.3	9.6	-30	-0.2	1.2	0.25	2.8
June							0.0	9.5	-175	0.9	1.1	0.25	3.2
July							0.8	9.5	-66	0.7	1.2	0.25	3.0
August							0.2	9.6	-1	0.6	1.1	0.25	2.7
September							-0.2	9.6	-24	-2.0	1.1	0.25	2.6
October							0.0	9.6	172	-0.5	1.2	0.25	2.5
November								9.8	39			0.25	2.7
<b>Forecasts</b>													
2010	2.8	1.8	3.3	1.2	11.6	14.6		9.7			1.6	0.25	3.3
2011	3.2	4.0	4.6	2.1	9.5	11.7		9.1			1.8	0.31	3.1
2012	3.3	3.7	4.3	1.8	6.0	5.2		8.7			1.9	1.00	3.5
Q410	0.5	1.0	0.7	0.7	2.0	3.2		9.8			1.0	0.25	3.1
Q111	1.2	1.2	1.0	0.5	2.7	2.5		9.5			1.1	0.25	3.0
Q211	0.6	1.0	1.0	0.4	2.2	1.5		9.2			1.8	0.25	3.0
Q311	1.0	1.0	1.1	0.3	2.7	1.9		9.0			2.0	0.25	3.0
Q411	0.9	0.9	1.1	0.5	2.5	2.2		8.8			2.4	0.50	3.2

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> Median price of existing one-family homes, NAR measure

Source: Fitch, Bureau of Economic Analysis, National Association of Realtors (NAR), Datastream

## Japan

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Wages <sup>a, b</sup>	Business confidence tankan <sup>c</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	-1.2	-0.6	-2.8	0.3	1.7	1.0	-3.4	4.0	-0.3	-12.3	1.4	0.46	1.5
2009	-5.2	-1.0	-13.8	1.5	-24.1	-16.8	-21.9	5.1	-3.8	-40.3	-1.4	0.11	1.3
Q409	0.9	0.7	0.5	0.7	5.7	1.5	5.9	5.2	-4.1	-32.0	-2.1	0.10	1.3
Q110	1.2	0.5	0.4	0.6	7.0	3.0	7.0	4.9	0.0	-24.0	-1.1	0.10	1.3
Q210	0.4	0.0	0.4	0.3	5.9	4.1	1.5	5.2	1.3	-15.0	-1.0	0.09	1.3
Q310	1.1	1.2	2.0	0.2	2.5	3.0		5.2			-0.7	0.11	1.3
June							0.1	5.2	0.1		-0.9	0.09	1.3
July							-1.1	5.3	1.8		-0.7	0.09	1.2
August							-0.2	5.2	1.4		-0.9	0.09	1.1
September							-0.5	5.1	0.4		-1.0	0.10	1.0
October							-1.6	5.0	0.9		-0.6	0.09	1.1
November												0.09	0.9
<b>Forecasts</b>													
2010	3.2	2.0	2.1	2.1	20.5	11.7		5.2			-0.9	0.10	1.3
2011	1.5	0.6	3.0	0.5	7.5	6.5		5.0			-0.1	0.11	1.3
2012	1.7	1.5	3.4	-1.0	5.9	5.1		5.0			0.1	0.11	1.3
Q410	-4.8	-2.1	-2.8	0.1	-13.6	5.7		5.2			-0.7	0.11	1.3
Q111	2.0	0.4	2.0	0.2	6.0	-0.2		5.1			-0.2	0.11	1.3
Q211	1.7	1.0	1.5	0.1	6.0	0.0		5.1			-0.2	0.11	1.3
Q311	1.7	0.6	1.5	-0.4	7.5	0.0		5.0			0.0	0.11	1.3
Q411	1.3	0.2	0.5	-0.2	7.0	-0.1		5.0			0.2	0.11	1.3

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> Wage index of cash earnings, Ministry of Labour

<sup>c</sup> Diffusion index, all industries

Source: Fitch, Datastream

## Euro Area

Change on previous period unless stated (%)

	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	Broad money M3 <sup>a</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	0.3	0.3	-1.0	2.3	0.7	0.5	-1.8	7.5	-5.3	8.6	3.3	3.89	4.2
2009	-4.0	-1.1	-11.3	2.4	-13.0	-11.7	-14.8	9.4	-2.5	-0.6	0.3	1.28	3.7
Q409	0.2	0.3	-1.2	-0.1	2.0	1.2	1.3	9.9	-1.4	-0.6	0.4	1.00	3.6
Q110	0.4	0.3	-0.4	0.1	2.6	4.3	2.3	9.9	0.5	-0.8	1.1	1.00	3.5
Q210	1.0	0.2	1.8	0.1	4.3	4.2	2.3	10.0	0.7	0.1	1.5	1.00	3.4
Q310	0.4	0.3	0.0	0.4	1.9	1.7	0.8	10.0	1.4	0.9	1.7	1.00	3.1
June							-0.2	10.0	1.3	0.1	1.4	1.00	3.3
July							0.1	10.0	1.3	0.1	1.7	1.00	3.3
August							1.1	10.0	1.5	1.0	1.6	1.00	3.0
September							-0.8	10.0	1.5	0.9	1.8	1.00	3.0
October							0.7	10.1	1.7	0.8	1.9	1.00	3.0
November											1.9	1.00	3.3
<b>Forecasts</b>													
2010	1.7							10.0			1.6	1.00	3.3
2011	1.6							9.9			1.6	1.25	3.7
2012	2.1							9.9			1.8	1.50	3.7
Q410	0.5							10.2			1.9	1.00	3.3
Q111	0.4							10.1			1.9	1.00	3.5
Q211	0.3							10.0			1.9	1.00	3.6
Q311	0.5							9.8			1.7	1.25	3.7
Q411	0.5							9.8			1.7	1.25	3.9

<sup>a</sup> Change over same period a year earlier (%)

Source: Fitch, Datastream

## Germany

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volume <sup>a</sup>	Business confidence (IFO, 2000 = 100)	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	0.7	0.6	1.8	2.3	2.0	2.9	-0.1	7.7	-0.1	96.8	2.7	3.89	4.0
2009	-4.7	-0.1	-10.0	2.9	-14.3	-9.4	-15.5	8.1	-2.1	87.7	0.3	1.28	3.3
Q409	0.3	0.0	-0.8	-0.3	2.7	-1.6	1.0	8.1	-2.0	93.5	0.4	1.00	3.2
Q110	0.6	0.2	1.2	1.9	3.0	6.5	1.6	8.0	0.0	96.5	0.8	1.00	3.2
Q210	2.3	0.6	5.6	-1.1	7.9	7.8	5.6	7.7	1.2	101.8	1.0	1.00	2.8
Q310	0.7	0.4	1.3	1.1	2.3	1.9	1.4	7.5	2.0	106.6	1.2	1.00	2.4
June							-0.6	7.7	3.0	101.9	0.8	1.00	2.6
July							0.2	7.6	2.4	106.2	1.2	1.00	2.6
August							1.5	7.6	2.9	106.7	1.0	1.00	2.4
September							-1.0	7.5	0.8	106.8	1.3	1.00	2.3
October							2.9	7.5	2.7	107.7	1.3	1.00	2.4
November								7.5		109.3	1.6	1.00	2.5
<b>Forecasts</b>													
2010	3.6	0.6	5.8	2.1	14.6	14.1		7.7			1.2	1.00	2.8
2011	2.3	1.0	2.9	0.5	9.9	9.5		7.1			1.7	1.13	3.0
2012	2.4	1.2	2.3	0.5	5.6	4.0		6.8			1.8	1.44	3.1
Q410	0.7	0.9	0.9	0.4	2.0	2.6		7.4			1.6	1.00	2.6
Q111	0.4	-0.2	0.1	0.0	2.5	2.1		7.3			1.7	1.00	2.8
Q211	0.2	0.1	0.1	-0.2	1.5	1.3		7.1			1.9	1.00	2.9
Q311	0.5	0.1	0.1	0.1	2.0	1.8		7.0			1.7	1.25	3.0
Q411	0.1	0.1	0.1	0.1	1.6	1.7		6.9			1.6	1.25	3.2

<sup>a</sup> Change over same period a year earlier (%)  
Source: Fitch, Eurostat, IFO, ECB, Datastream

## France

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	House prices <sup>a, b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	0.1	0.9	0.7	1.6	-0.6	0.6	-2.7	7.4	-1.5	1.2	3.2	3.89	4.2
2009	-2.5	1.3	-7.1	2.8	-12.4	-9.5	-12.3	9.1	-1.3	-7.1	0.1	1.28	3.6
Q409	0.6	1.1	-0.8	0.6	1.5	3.4	0.9	9.6	2.3	-4.4	0.4	1.00	3.5
Q110	0.2	0.1	-0.5	-0.1	4.5	2.3	3.0	9.5	2.4	1.6	1.5	1.00	3.4
Q210	0.7	0.6	1.1	0.3	2.5	4.3	0.8	9.3	1.5	6.2	1.8	1.00	3.2
Q310	0.4	0.6	0.7	0.4	2.9	4.0	0.3	9.3	3.5	8.6	1.8	1.00	2.8
June							-1.6		-1.0		1.7	1.00	3.1
July							0.9		4.4		1.9	1.00	3.0
August							0.0		3.8		1.6	1.00	2.7
September							0.1		2.2		1.8	1.00	2.7
October									-0.3		1.8	1.00	2.7
November												1.00	3.0
<b>Forecasts</b>													
2010	1.5	2.3	-0.9	1.4	10.2	10.4		9.4			1.7	1.00	3.1
2011	1.9	2.2	3.6	1.6	6.2	8.2		9.3			1.6	1.13	3.3
2012	2.2	1.7	2.6	1.6	3.0	1.5		9.3			1.8	1.44	3.5
Q410	0.3	0.9	0.6	0.3	1.9	2.9		9.5			1.8	1.00	2.9
Q111	0.5	0.3	0.9	0.3	1.2	1.5		9.5			1.7	1.00	3.2
Q211	0.5	0.4	1.0	0.4	1.1	1.0		9.3			1.6	1.00	3.3
Q311	0.6	0.6	1.2	0.5	0.7	0.8		9.2			1.5	1.25	3.4
Q411	0.8	0.5	1.0	1.0	0.9	0.6		9.3			1.5	1.25	3.6

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> INSEE existing houses and apartments

Source: Fitch, INSEE, Eurostat, Datastream

## Italy

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	Business confidence <sup>b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	-1.3	-0.8	-4.0	0.8	-3.9	-4.3	-3.8	6.8	-2.5	95.3	3.5	3.89	4.6
2009	-5.1	-1.7	-12.2	0.6	-19.1	-14.6	-18.2	7.8	-1.6	80.9	0.8	1.28	4.2
Q409	-0.1	0.0	0.7	-0.1	-0.2	3.0	1.7	8.3	-0.2	89.3	0.7	1.00	3.9
Q110	0.4	0.2	1.3	-0.5	3.4	3.3	1.5	8.4	0.5	94.3	1.2	1.00	3.9
Q210	0.5	0.0	2.0	0.3	2.4	-0.1	1.9	8.4	0.4	96.2	1.6	1.00	4.0
Q310	0.3	0.3	0.9	-0.2	2.8	4.7	1.1	8.2	1.5	98.9	1.7	1.00	3.9
June							0.5	8.3	1.3	96.4	1.5	1.00	4.1
July							0.3	8.3	0.9	98.2	1.8	1.00	4.0
August							1.5	8.1	1.7	99.5	1.8	1.00	3.8
September							-2.1	8.3	1.8	98.9	1.6	1.00	3.8
October							-0.1	8.6		100.1	2.0	1.00	3.8
November										101.6	1.8	1.00	4.1
<b>Forecasts</b>													
2010	1.1	0.8	3.0	-0.4	7.5	8.0		8.4			1.6	1.00	4.0
2011	1.1	1.0	3.0	-0.2	3.1	3.0		8.4			1.7	1.13	4.4
2012	1.5	1.2	3.0	0.1	3.0	2.3		8.3			1.8	1.44	4.6
Q410	0.4	0.5	0.3	0.0	0.5	0.4		8.6			1.9	1.00	4.0
Q111	0.0	0.2	0.3	-0.1	0.4	0.2		8.5			1.8	1.00	4.2
Q211	0.2	0.1	0.5	-0.1	0.2	0.1		8.5			1.8	1.00	4.3
Q311	0.4	0.2	1.2	0.0	0.2	0.1		8.3			1.6	1.25	4.4
Q411	0.7	0.4	2.0	0.1	0.5	0.3		8.2			1.6	1.25	4.5

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> ISAE index

Source: Fitch, Datastream

## Spain

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports	Imports	Industrial production	Unemployment (% labour force)	Retail sales volumes <sup>a</sup>	House prices <sup>b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	0.9	-0.6	-4.8	5.8	-1.1	-5.3	-7.5	11.4	-5.1	1.1	4.1	3.89	4.3
2009	-3.7	-4.2	-16.0	3.2	-11.6	-17.8	-15.5	18.1	-5.4	-7.2	-0.2	1.28	4.0
Q409	-0.2	0.2	-2.0	-0.6	2.8	1.3	1.0	19.0	-3.8	-6.2	0.2	1.00	3.8
Q110	0.1	0.9	-1.6	0.1	4.1	4.4	0.0	19.3	-2.2	-4.5	1.2	1.00	3.9
Q210	0.3	1.4	-0.6	0.7	1.4	3.6	0.7	20.0	-2.2	-3.6	1.6	1.00	4.2
Q310	0.0	-1.1	-3.0	-0.4	0.1	-5.0	-1.6	20.5	-3.4	-3.4	1.9	1.00	4.2
June							0.1	20.2	-2.0		1.5	1.00	4.6
July							-1.5	20.4	-3.3		1.9	1.00	4.4
August							1.1	20.5	-3.3		1.8	1.00	4.1
September							-2.1	20.7	-3.7		2.1	1.00	4.1
October							0.3	20.7	-2.6		2.3	1.00	4.1
November											2.2	1.00	4.7
<b>Forecasts</b>													
2010	-0.3	1.2	-7.6	0.0	9.0	4.8		20.1			1.7	1.00	4.2
2011	0.5	0.9	-2.7	-1.0	3.5	0.5		20.0			2.0	1.13	4.5
2012	1.6	1.9	3.2	-0.3	3.8	3.2		19.0			2.1	1.44	3.9
Q410	-0.3	0.2	-0.8	-0.1	0.8	1.1		20.7			2.2	1.00	4.5
Q111	0.2	0.3	-0.2	-0.3	1.1	0.7		20.4			2.2	1.00	4.7
Q211	0.2	0.4	-0.2	-0.4	1.0	0.5		20.0			2.2	1.00	4.5
Q311	0.2	0.4	-0.2	-0.5	0.8	0.5		19.9			1.9	1.25	4.5
Q411	0.4	0.6	-0.1	-0.4	1.0	0.5		19.8			1.8	1.25	4.4

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> INE index

Source: Fitch, Datastream

## UK

Change on previous period unless stated (%)	Real GDP	Consumption	Investment	Government spending	Exports <sup>c</sup>	Imports <sup>c</sup>	Industrial production	Unemployment (% labour force)	Retail sales volume <sup>a</sup>	House prices <sup>a, b</sup>	CPI inflation <sup>a</sup>	Interest rates (%)	Bond yields, 10-year (%)
2008	-0.1	0.4	-5.0	1.6	1.0	-1.2	-3.1	5.7	1.7	-8.6	3.6	4.67	4.5
2009	-5.0	-3.3	-15.1	1.0	-11.1	-12.3	-10.1	7.8	1.0	-9.9	2.2	0.64	3.7
Q409	0.4	0.8	-2.0	0.7	3.7	4.5	0.5	7.8	2.6	1.8	2.1	0.50	3.8
Q110	0.4	0.0	2.9	0.7	-0.7	2.0	1.1	7.9	0.0	4.9	3.3	0.50	4.1
Q210	1.2	0.7	1.4	1.0	2.3	2.4	1.0	7.8	0.8	6.2	3.4	0.50	3.7
Q310	0.8	0.2	0.6	0.4	2.2	0.7	0.6	7.7	0.7	2.7	3.1	0.50	3.2
June							-0.4	7.8	0.9	4.8	3.2	0.50	3.4
July							0.2	7.7	1.2	4.7	3.1	0.50	3.5
August							0.4	7.7	0.8	4.3	3.1	0.50	3.2
September							0.3		0.1	-0.7	3.1	0.50	3.1
October							-0.2		-0.1	-0.1	3.2	0.50	3.1
November										-1.4	3.3	0.50	3.3
<b>Forecasts</b>													
2010	1.8	1.1	2.1	1.9	5.3	7.8		7.8			3.3	0.50	3.6
2011	2.0	1.4	3.8	-0.5	5.4	2.9		7.6			3.2	0.63	3.7
2012	2.4	2.1	5.6	-1.2	5.4	3.8		7.4			2.6	1.75	4.0
Q410	0.6	0.6	0.8	-0.1	1.2	0.6		7.7			3.3	0.50	3.2
Q111	0.2	0.1	0.8	-0.3	1.1	0.5		7.7			3.5	0.50	3.2
Q211	0.5	0.4	1.1	-0.3	1.2	0.7		7.6			3.4	0.50	3.7
Q311	0.3	0.3	1.0	-0.4	0.8	0.6		7.6			3.1	0.50	4.0
Q411	0.5	0.3	1.5	-0.4	1.3	0.5		7.5			2.8	1.00	4.0

<sup>a</sup> Change over same period a year earlier (%)

<sup>b</sup> Halifax index

<sup>c</sup> Trade data for 2006 (and growth rates for 2007) are distorted by the impact of MTIC fraud

Source: Fitch, Datastream

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