FOCUS ON:
Short term prospects for the construction sector

November, 14th 2007

Highlights

World business conditions have dramatically changed starting last summer under the combined effect of the sub-prime mortgages market crisis in the US, the new oil price boom, and further dollar slide. Growth prospects have been downsized while uncertainty level has considerably increased.

In brief:

⇒ Prompt Central Banks' intervention has successfully limited the effects of the sub-prime crisis. However, credit conditions have worsened almost everywhere and it is now widely believed that the crisis will be felt not only in the US.

⇒ The ongoing dollar fall raises new questions whether and at what levels new sustainable currencies equilibria may be found. Most forecasters continue to see dollar values around 1.40 vis-à-vis the euro on 2008 average. However, to make such an assumption more believable a substantial appreciation of both the yen and the renminbi would be needed.

⇒ The oil price boom has outpaced every forecast. Supply side limits are at the roots of the new spike while demand keeps growing at unabated pace, despite the higher costs of using energy. Although prices are set to remain structurally high, we do not think that current, close to 100$/b, prices will prevail for long.

⇒ Construction is at a turning point in most of the Group's mature countries. In the above context, the US, Italy and Spain are set to exhibit negative figures in 2008 (for the US for the third consecutive year).

- As for Italy and Spain our assessment is more pessimistic than the consensus, as we deem that the residential segment has turned negative already in 2H 2007.

- The US are in the midst of a "double dip" of the residential segment and it is now expected that the downfall will continue well in 2008. Also the non residential sector is exposed to lose steam.

- For the Group's emerging countries, prospects are still tilted to the upside although on a softer note than in 2008. Even Thailand should somewhat recover after a disappointing 2007.

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1. Macroeconomic conditions

Available information points to still solid global economic activity, even though downside risks could contribute to shape a worsened scenario.

Three main, apparently uncorrelated, events are raising doubts about the soundness of the current growth process:

- the global financial turmoil triggered by the US sub-prime mortgages crisis;
- the current dollar's weakness, which has breached the threshold of 1.45 *vis-à-vis* the euro;
- the recent rise of oil prices which are hovering around 100$/b.

In all the above elements a common aspect may be found in their systemic feature; in fact, they are linked to each other, as the sub-prime crisis has contributed - through the Fed cuts of policy interest rates - to the further dollar's devaluation which in turn has induced raw material producers to raise prices in order to avoid a squeeze in their profit margins.

As anticipated, the combination of the above factors could set off highly adverse results. More in particular, and looking at the above issues separately:

1. The mortgage crisis. Although it has been promptly mitigated by the central banks' action, consequences are set to last (and to weight) on both the global economy and the US. Banks are expected to adopt stricter lending standards thus raising borrowing costs. It is also likely that in most of the European real estate markets - on the back of what is occurring in the US - the psychological impact on investors and households will be significant. The deepening of the housing recession in the US (see also *par. 2.2*) will affect consumption, as households will need to increase their savings in order to re-build part of their wealth stock to compensate for the house prices' drop. Considering that in the booming years the residential sector added (directly and indirectly) roughly 1 pp to GDP growth, it may be concluded that also in 2008 the US economic performance will remain sluggish (in our assessment, significantly below the consensus forecast that puts it at 2.4%).

2. The dollar's weakness. It is fed by both the easing stance taken by the Fed and the downward revision of US GDP forecasts. It is difficult to envisage the turning point of this process; most analysts agree that over the threshold of 1.4, the euro area export competitiveness is seriously hit, thus impacting also on GDP growth. On the other hand, the ongoing dollar devaluation vis-à-vis the euro is not in itself sufficient to lower substantially the US current deficit. The risk is thus to enter a lose-lose situation while the favourable solution (by far not the most likely) would be one where also other currencies – to start with the yen and the renminbi – appreciate vis-à-vis the dollar. In this last hypothesis, the burden to reduce the excessive US current balance disequilibria would be shared among all the major players in a more tolerable way.
   We also expect increasing short term volatility among the main currencies, a reduction in carry-trades, as well as a number of realignments of some emerging currencies, clearly overvalued in the last few years.

3. Oil price. It has jumped close to 100$/b due to continuing strong demand and, to a greater extent, to current and perspective constraints limiting supply. All energy commodities are clearly undergoing the same trend (*graph 1*). The strength of the OPEC cartel, new tensions in the geo-political setting (the last ones occurring at the Turkish -

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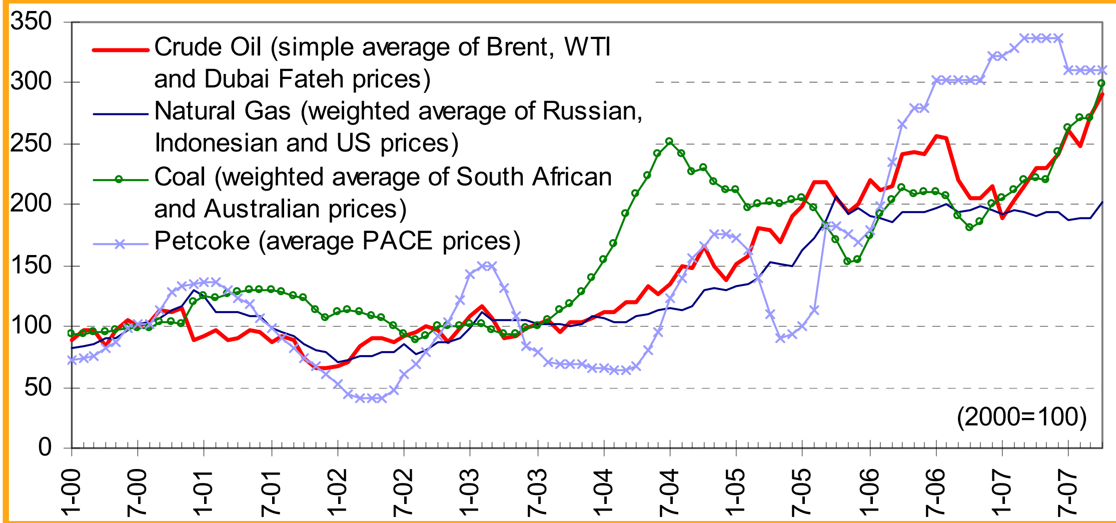
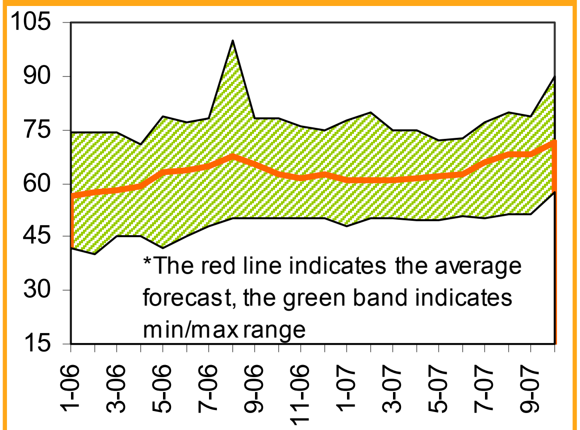
Graph 1 - **Energy Price Indices: Oil, Natural Gas, Coal and Petcoke - 2000-2007**



Source: IMF and PACE Global Energy Services; weights are based on IMF's 1995-97 average world export earnings; monthly data

Graph 2 - **Oil Prices (WTI, US$ per Barrel): 12-months Forecasts***



Source: Consensus Forecasts; various months. Forecasts by 70 international institutions

Iraqi border), drops in some production sites (in the North Sea and in the Mexican Gulf), insufficient levels of stocks, and speculative factors may be all blamed for the price spikes. The new record highs should be temporary, according to consensus forecast whose expectations – though shifting upside – are still centred on prices around 70$/b 12 months ahead (see *graph 2*). The risk exists however that – entering an hysteresis loop – the current peaks take root, in which case the impact on inflation and economic activity could be by far more severe then what has been seen in the recent past. In turn, should these unfavourable developments materialise, monetary authorities would face a by far trickier dilemma than in the past, when, in an environment of growth and stability, they simply chose to let some asset bubbles to inflate.

To sum up, a moderate slowdown of mature economies seems at sight (see *graph 3 a, b*). Furthermore this could occur in a real and financial setting less stable than the one prevailing in the last few years.

As for the emerging economies (see *graph 3 c, d*) the ongoing strong growth phase is set to continue at an only slightly less brilliant pace. China will still represent the main engine, contributing more than 1/3rd to overall world growth.

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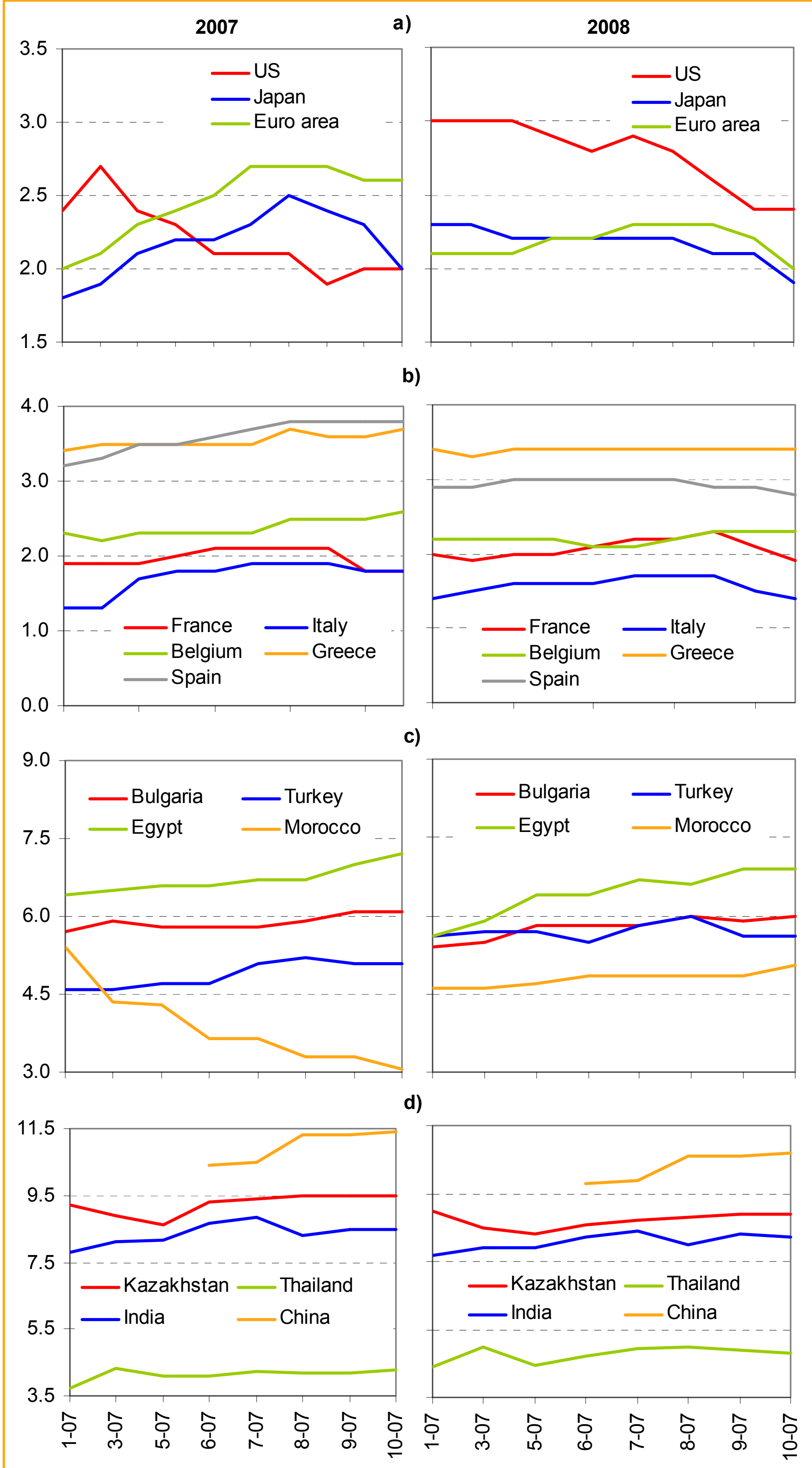
Graph. 3 - **GDP Growth Forecasts for 2007 and 2008**



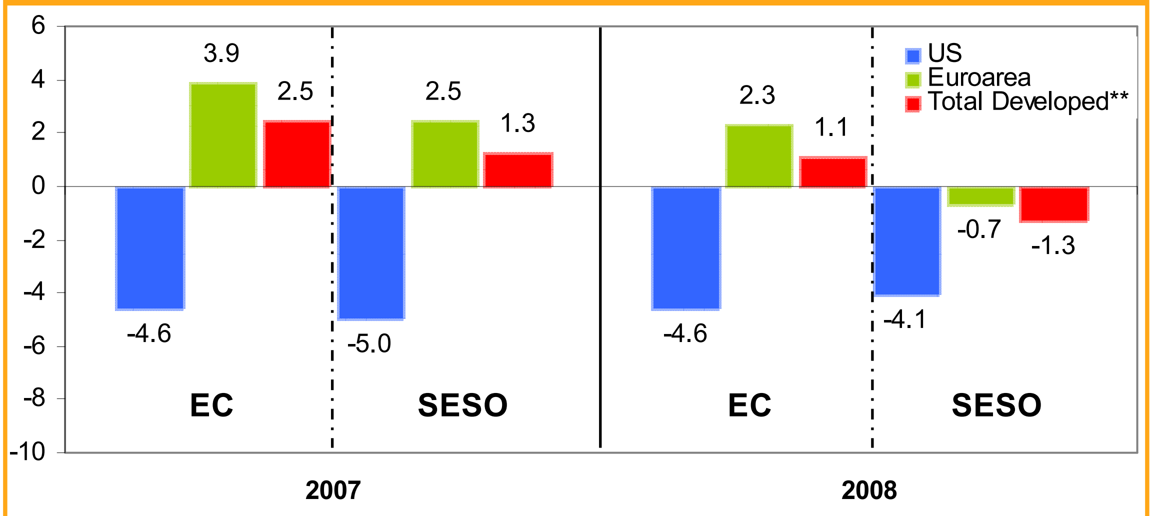
Sources: EIU, Global Insight, Consensus Forecasts; various months

2. Construction outlook in the Group's countries

2.1 Overall view

In 2008 construction is set to further decelerate in the Group's mature economies while it should keep on running at a very robust pace in the emerging area. As for the mature countries, the US are expected to post an only less dramatic decrease in 2008 (-4.1%) while for the first time in several years the Group's euro area as a whole should turn negative (-0.7%). It is worth noting in this latter regard (*see graph 4*) that a fairly more optimistic view than our own, emerges in the November forecasts issued by the EU; this latter sees a clear deceleration occurring in construction investment, which is however expected to produce a still positive result in 2008. Such wide differences in expected outcomes may be also assumed as an indication of the uncertainty surrounding short term construction prospects, particularly in some of the Group's key euro countries.

Graph 4 **- Construction investment in the Group's mature countries*: 2007-08 forecasts**



Sources: European Commission, Autumn 2007 Forecasts, SESO, Budget 2008; *Weighted by ITC Group's cement volume sales in H1 2007;** excluding Canada

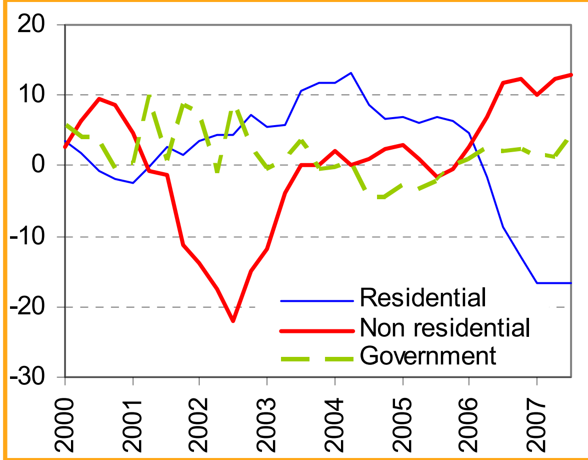
2.2 North America

According to national accounts data, construction investment continued to drop in Q3 07 (-1.5% q-o-q and -4.8% y-o-y) due to the further worsening of the housing sector (-5.5% q-o-q and -16.6% y-o-y, *graph 5*).

Housing fundamentals remain weak. The Consensus forecasts for 2007 and 2008 (*table 1*) have been markedly deteriorating over the last few months and the risk of a sharper and long-lasting contraction in the residential sector is not ruled out. As a matter of fact, also considering previous housing recessions (*graph 6*), the ongoing adjustment process might not have reached the bottom yet.

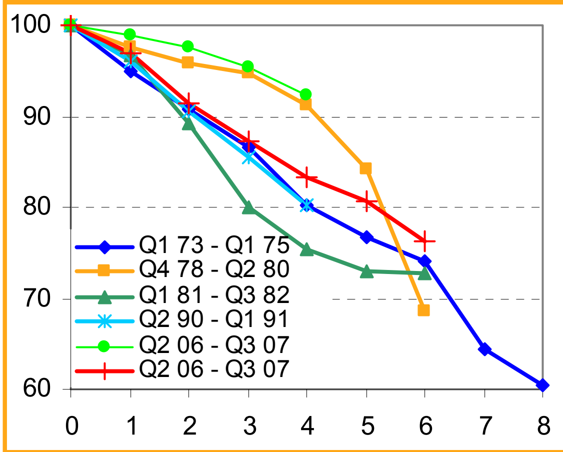
Leading indicators for the housing market continue to be rather disappointing. Housing starts (*graph 8*) and permits issued fell sharply in September (-30.8 and -25.9% y-o-y respectively). In turn, the housing market index (*graph 7*) fell to an all-time low in September and the Michigan Survey's buying conditions index continued to deteriorate. The S&P/Case-Shiller index shows that home prices are rapidly declining in cities where the residential boom was stronger.

Graph 5 - **US: Real Construction Investment by Type** (yoy % ch, sa)



Source: BEA; quarterly data

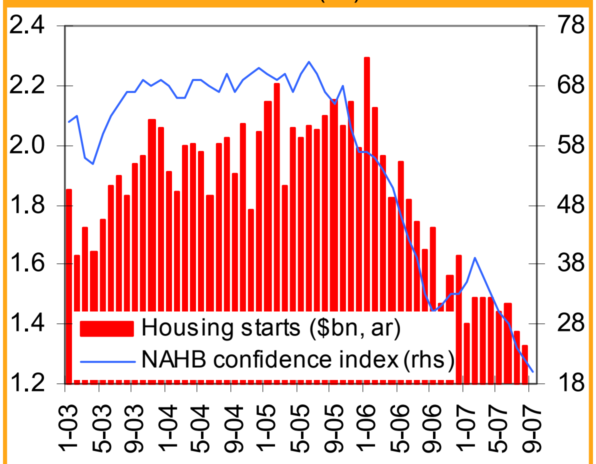
Graph 6 **- US: Past and Ongoing Housing Recessions** (number of quarters)



Source: our elaborations on BEA data; quarterly

Declining prices are keeping investors on the sidelines, while the rising number of mortgage payment delinquencies and defaults is causing a tightening in lending standards; this is reflected in further contractions of housing demand and it makes more difficult to work off the already high levels of unsold homes.

Graph 7 - **US: Housing Starts and Confidence Index** (sa)



Sources: U.S. Census, NAHB; monthly data

On the other hand, activity in non residential construction is on a very positive path (+12.8% y-o-y and +3% q-o-q, *graph 5*). Corporate profits are still high as well as the underlying fundamentals. Various surveys, however, suggest that an erosion in business confidence is looming. In addition, credit standards have been tightened. These combined factors are set to subtract momentum from the pace of activity in 2008.

According to government data, public construction has remained vibrant, growing by 4.2% y-o-y in Q3 07 (*graph 5*). Furthermore, latest anecdotal information shows strong increases in state and local expenditures mainly thanks to the fairly good dynamics of state finance. Positive showings in public construction are thus expected even for the next months.

Table 1 - **US Residential Investment: 2007-2008 Forecasts***
(housing units and real private residential investment, % change)

Consensus of forecasts released in:	**2007**		**2008**	
	Housing starts	Residential investment	Housing starts	Residential investment
September-October	**-23.6**	**-15.9**	**-8.8**	**-9.2**
July-August	-20.5	-14.5	1.6	-1.0
May-June	-19.7	-14.6	6.3	0.2
March-April	-17.2	-13.2	8.4	2.8

* The two indicators may differ for the following reasons: time lags between the two series; the *number* vs the *value* of homes; the inclusion of maintenance outlays in the residential investment's figure

2.3 Euro area

ITALY. Since the beginning of the year, economic expansion seems to have lost momentum. Exports have weakened somewhat while consumption has grown steadily. GDP growth is estimated to be in 2007 slightly below last year's figure. Prospects for a further slowdown in 2008 are also rising, due to the worsening of the global economic environment, and significant effects expected from the continued tightening of lending standards.

Over the current year, there have been two (more apparent than real) improvements as far as the labour market and public finances are concerned. The unemployment rate fell below 6% in Q2 07; on the other hand, the activity rate (labour force in percent of working-age population) declined. The public deficit is expected to shrink significantly (to 2.4% of GDP), mainly owing to much better-than-expected fiscal revenues (over one full pp of GDP). However, higher revenues have been used to raise public spending rather than to speed up the deficit reduction. The same scheme is expected to materialise also in 2008, as revenues should increase above expectations over the course of the year, thus feeding new spending initiatives.

The overall worsening in business conditions, the continuing surge in government current expenditure and the tightening in lending standards, create an unfavourable context for the construction sector. Its performance for this year remains uncertain, and there are still large differences in estimates concerning the full year outcome (e.g., there are over 4 pp between Prometeia and Cresme forecasts, see *table 2*). Significant differences among fore-casters remain also for 2008, when the consensus points to another positive year for construction (0.9%). This uncertainty reflects mostly the instability of the sector dynamics which opens room for different interpretations (see *graphs 8-11* that show actual and leading indicators and surveys among business operators). In particular, the exceptionally strong construction activity recorded in Q4 06 and in Q1 07 has produced a strong carry-over effect that may hide the severity of the turnaround that has occurred in the second and third quarter.

Table 2 - **GDP and Construction Investment: 2007-2008 Forecasts***
(% change in real terms)

	GDP**				**Construction****			
	2007		**2008**		**2007**		**2008**	
CSC (Sep.)	1.7	(1.8)	1.3	(1.5)	3.1	(3.3)	1.5	(1.8)
Cer (Sep.)	1.7	(1.8)	1.5	(1.6)	2.9	--	1.7	--
Prometeia (Oct.)	1.7	(1.8)	1.4	(1.5)	3.8	(4.0)	1.7	(1.7)
Isae (Oct.)	1.8	(1.9)	1.4	(1.8)	3.3	(3.2)	1.2	(1.5)
Ance (Oct.)	--	--	--	--	0.4	(0.9)	-0.1	--
Cresme (Oct.)	1.8	(1.8)	1.5	(2.0)	-0.4	(0.1)	-0.4	(-0.9)
EU (Nov.)	1.9	(1.9)	1.4	(1.7)	4.1	(2.5)	2.2	(1.4)
Consensus	**1.8**	**(1.8)**	**1.4**	**(1.7)**	**2.5**	**(2.3)**	**1.1**	**(1.1)**
Memorandum: ITC SESO (Oct.)***	**1.8**	**(1.8)**	**1.5**	**(1.8)**	**2.0**	**(1.0)**	**-1.5**	**(-1.5)**

* Month of forecast publication in brackets; ** Previous forecast by same institution in brackets;
*** under revision

Two factors are at the roots of the ongoing turnaround:

– the weakening in new residential buildings construction;

– the continuing decrease of public works since 2005.

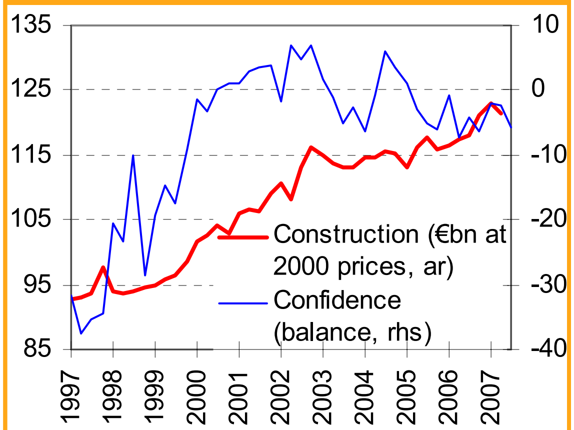
The former trend can be considered in many respects physiological. As a matter of fact, the past, long-lasting growth cycle has been favoured by a number of structural elements:

– the huge amount of new households' formation (with a record high of 400 thousands in 2002, then slightly slowed down in the following years);

– the interest rates drop coupled with wide financial innovation and increased bank competition;

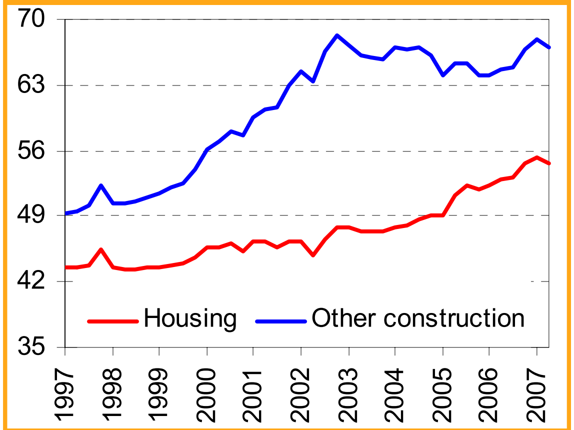
– the increased preference towards real assets after the so called dot.com burst and a number of financial scandals that have involved heavily Italian investors (e.g., Argentinas' bonds, Cirio and Parmalat).

Graph 8 - **Italy: Confidence Index and Construction Investment** (sa)



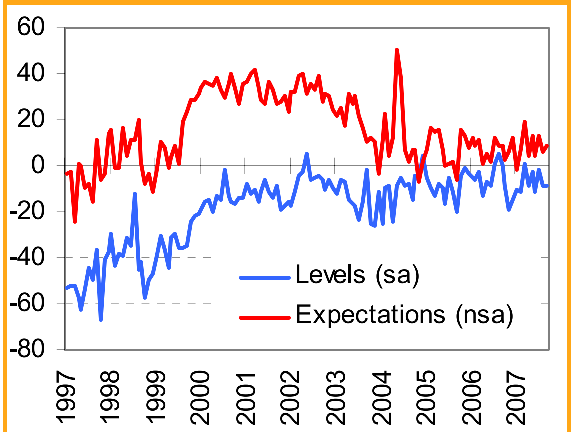
Sources: EU, ISTAT; quarterly data

Graph 9 - **Italy: Construction Investment by Type at 2000 Prices** (€bn, saar)



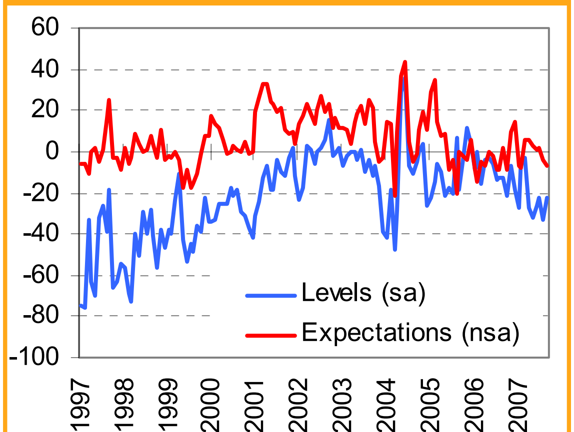
Source: ISTAT; quarterly data

Graph 10 - **Italy: Buildings Book of Orders** (assessment of levels and expectations)



Source:Calculations on ISAE data; monthly data

Graph 11 - **Italy: Civil Works Book of Orders** (assessment of levels and expectations)



Source:Calculations on ISAE data; monthly data

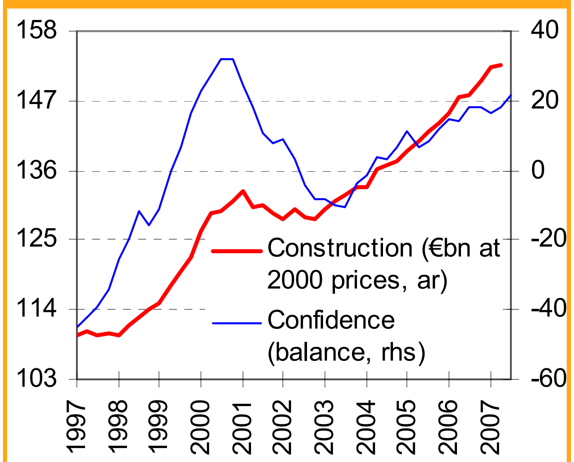
The positive effects of the above factors seem now to have vanished. In addition, the real estate market shows some signs of weakness (housing prices are stabilising, the time span needed to sell an apartment is widening, and the number of sales is shrinking), which is in turn discouraging speculative demand. As a consequence, the demand-supply equilibrium of the housing market can be found only at lowered activity levels.

Public works remain a puzzling issue. On the one hand, the government has increased the availability of funds for infrastructure for this year and the next (about 50% in 2008 vs 2006, once sectoral inflation is accounted for). On the other hand, in 2006-07 the total amount of bids for infrastructure works as well as the amount of awards of contracts were considerably reduced. The feeling is that the dynamics of public works actually put in place is not fully controlled by the central government and is affected by random factors such as the conclusion of some important works (some High-Speed lines) - which is not offset by the launch of new projects - or rising financing difficulties encountered by local bodies (given that roughly 50-60% of overall infrastructure spending is done by these bodies) as well as ANAS (Roads) or FSI (Rails) which make up another 15-20% of overall spending. In addition, there are other practical obstacles that have not been overcome yet (such as the inefficiency of the bureaucratic apparatus, or institutional conflicts among central government, regions and local bodies), which cause chronic delays in projects implementation. For all the above reasons, we expect in 2008 a further contraction in public works activity.

In accordance with others analysts, we expect that the private non residential sub-sector will continue to be the liveliest component of construction. However, the worsening macroeconomic conditions could rapidly affect private investment prospects, thus deepening the expected sector recession.

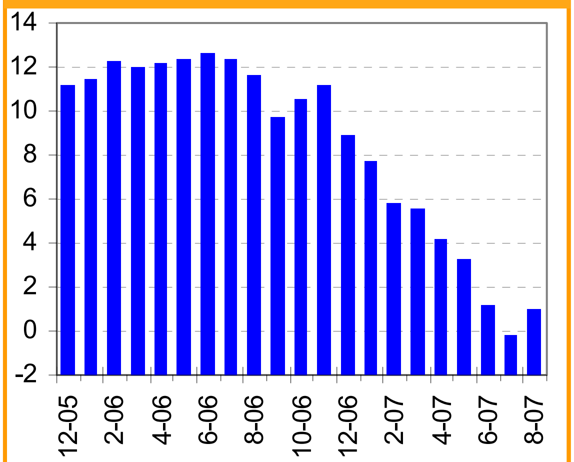
FRANCE. In Q2 07, the construction sector has been working at two-speeds. On the one hand, the non residential and public works component kept on growing at a very robust pace (5,6% y-o-y on the whole), while the residential sector drastically slowed down (0,4% y-o-y). This latter deceleration is also witnessed by some leading indicators: housing starts have decreased by 0.1% y-o-y in the first eight months of 2007 while building permits issued have dramatically dropped since the beginning of the year *(graph 13)*.

Graph 12 - **France: Confidence Index and Construction Investment** (sa)



Sources:EU, OECD; quarterly data

Graph 13 - **France: Residential Permits Issued** (12 months ma, y-o-y % ch.)

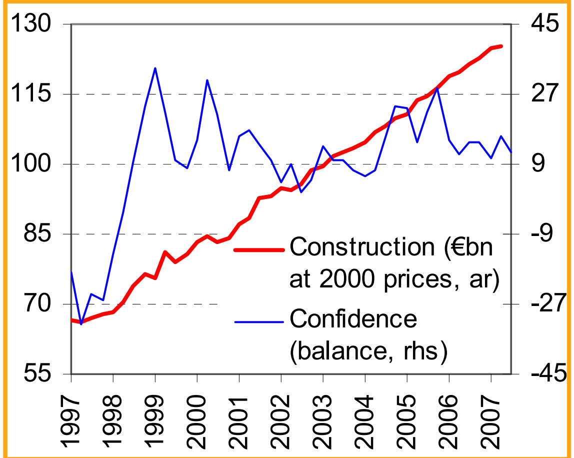


Source: MEDAD/SESP; monthly data

In addition, higher borrowing rates and more stringent credit terms are affecting new mortgage subscriptions while house prices are clearly decelerating. Prospects for 2008 point to a rapid turnaround of activity levels, but the risk of a housing bubble burst (as it happened in the Ile de France region between 1985 and 1991) is limited. As a matter of fact, – although they have reached very high levels – property prices do not still seem to be widely overvalued. In addition, housing demand is set to remain robust due to structural reasons such as the strong preference towards real rather than financial assets and the sustained demographic growth (320 thousands p.a. new households are expected in the medium term). Good news is continuing to come from the non residential sector thanks to increasing demand for offices and commercial and industrial buildings. Available leading indicators point to a good performance of this sub-sector even in the next months (starts and building permits issued grew by 3.3 and 9.6% y-o-y respectively in the first eight months of the year). As for civil works, expectations are for a slowdown in 2008 due to a very high base effect from 2007 and the end of the electoral cycle soon after next spring municipal elections.

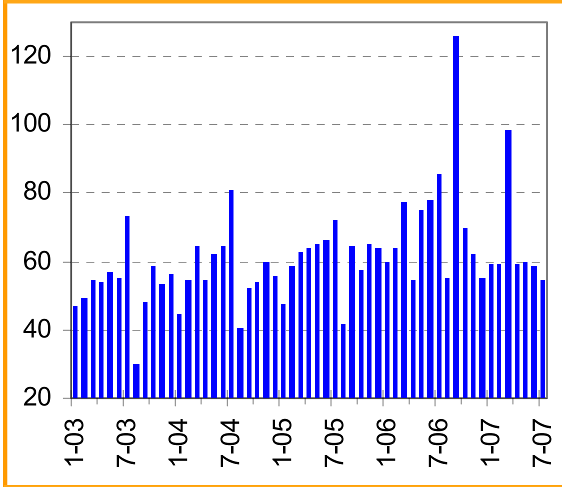
SPAIN. Construction investment grew at a healthy pace also in Q2 07, although decelerating as compared to previous quarters (+4.7% y-o-y against +5.3% y-o-y in Q1, *graph 14*). The residential sector continued to slow down (+3.7% y-o-y and +0.7 q-o-q against respectively +4% and +1% in Q1). Expectations point to an only mild slowdown in 2007 and to a contraction in 2008. As a matter of fact, the deterioration in affordability ratios, resulting from worsening financial conditions and overvalued house prices, is set to curb demand. Subscriptions of new mortgages have already slowed down dramatically and are set to falter in the next months as a consequence of stricter credit conditions. Permits issued dropped by 37% y-o-y in August (*graph 15*). On the other hand, the ongoing deceleration is proceeding along with still supportive overall economic conditions, which makes a soft landing scenario for construction the most likely one. In fact, private non residential investment will continue to perform well – even though at a softer pace – particularly thanks to the healthy activity in the service sector and public works will in turn benefit in the medium term from the high-speed trains works in the Northern regions.

Graph 14 - **Spain: Confidence Index and Construction Investment** (sa)



Sources:EU, OECD; quarterly data

Graph 15 - **Spain: Permits Issued** ('000)



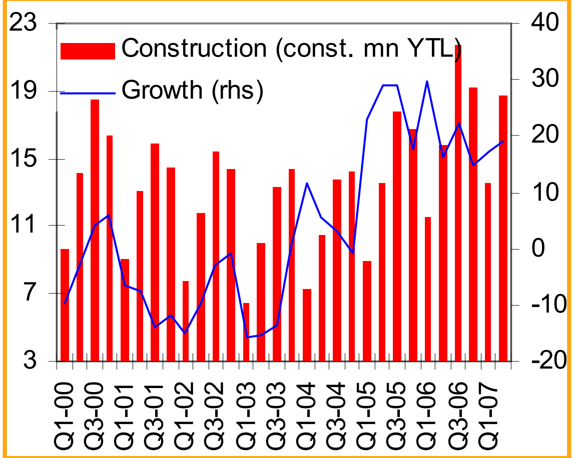
Source: INE; monthly data

GREECE. The economy continued to grow sharply in H1 07 (at an annual rate of 4.4%), on the back of still booming investment spending (10.3% y-o-y compared to 13% a year ago). Such buoyant growth is even more impressive in the light of tightened monetary conditions and the ongoing cooling down of the real estate market (with house price growth decelerating to about 5% y-o-y compared to 11% in 2006). Despite the recent rebound in public investment (45% y-o-y in the three months to August), overall construction activity is set to continue to slow down to more sustainable levels as residential construction permits declined by 11.1% y-o-y in Q2 and construction confidence remains weak.

BULGARIA. While economic fundamentals remain strong - underpinned by a solid growth momentum of investments (29.6% y-o-y in Q2) - most recent data signal worsening macroeconomic imbalances: inflation reached levels unseen since 2001, and the current account deficit widened towards intolerable levels. As for the construction sector, booming growth in the real estate market continued, and prospects remain bright for the rest of the year. Namely, the residential segment is benefiting from hefty activity in mountain and sea resorts, while FDI is supporting the non residential segment, particularly as far as commercial and tourist buildings are concerned. Expectations for public works are also positive, on the back of the start of some important EU-funded projects and the launch of new private-public partnership (PPP) projects.

2.4 Emerging markets

Graph 16 - **Turkey: Construction Investment** (level and y-o-y change, ar)



Source: Bank of Turkey; quarterly data

TURKEY. The positive growth momentum for construction is expected to carry on for the rest of the year, although at a softer pace. The sector is mainly boosted by the private component which continues to benefit from a huge amounts of FDI inflows (in the first seven months of 2007 almost 9% of FDI total inflows targeted the real estate) and the improvement in macroeconomic fundamentals. The new mortgage law, enforced earlier this year, has reduced home financing costs but its full potential will unfold only provided monetary policy is continuously eased. Prospects for the construction sector in 2008 are buoyant although they remain exposed to the vagaries of the political-military setting between the Turkish government and the Kurdish Workers' Party (PKK). The turmoil that would ensue should Turkish forces begin operating in Iraq could hit investors' confidence thus generating outflows of capitals and triggering turbulence in the forex market. In this latter case, higher inflation and interest rates would follow suit and significantly affect GDP growth and construction as well.

EGYPT. The ongoing positive economic juncture is set to continue in Egypt for the current fiscal year. The buoyancy of economic activity is witnessed by healthy exports, strengthening domestic demand, raising tourism receipts and migrants' remittances and the huge increase of revenues from the Suez Canal. Some risks stem from the monetary policy side, although the recent upward inflation pressures could be to some extent mitigated by the appreciation of the Egyptian pound vis-à-vis the dollar. The construction sector is on an upswing also benefiting from massive capital inflows originating from the oil-rich Gulf States. In the last budget the Government has reaffirmed its commitment to improve infrastructure and low income households housing construction.

MOROCCO. Although the economy is suffering from the effects of adverse weather conditions, the construction sector continues to show a very healthy pace (+12% y-o-y in Q2 07 against 9.3% y-o-y in Q1) driven by a particularly dynamic private component and civil works. As for the latter, Morocco’s road network expansion programme is on track. Other large infrastructure projects include new airports, ports and dams. The government strategy to boost tourism goes through the strengthening of dedicated infrastructures also thanks to the growing recourse to foreign funds, especially from the Gulf States.

THAILAND. The overall climate in Thailand remains shaky due to ongoing political turmoil. A series of misguided policy decisions has been eroding confidence in the administration and the fallout has been an increasingly uncertain economic environment and growing disillusionment among both Thais and foreign investors (foreign direct investment in the first eight months of this year totalled US$ 5 bn, down from $8 bn in the same period last year). Furthermore, the risks are on the rise with the approaching elections, due next December. This situation has clearly influenced private construction investment which was rather dis-

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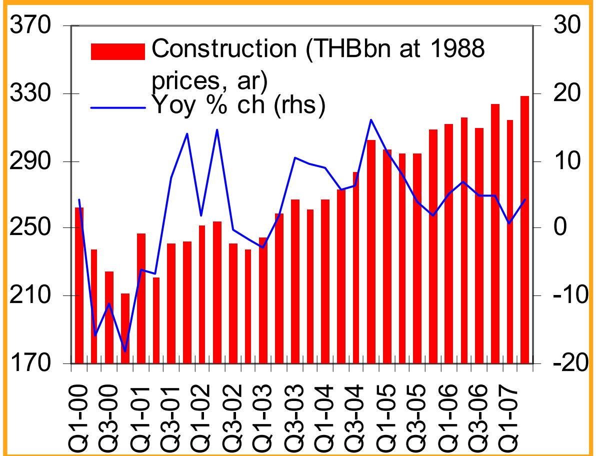
Graph 17 - **Thailand: Construction Investment** (sa)



Source: Bank of Thailand; quarterly data

appointing in H1 07 (-0.5% y-o-y). According to the national central bank, housing prices have been slowing down since Q2, in line with the moderation of residential investment. Activity levels are expected to decline further in the months ahead due to the significant deceleration in permits issued. On the other hand, public construction was particularly strong in Q2, growing by 9.6% y-o-y and by 9.3% q-o-q. It is worth noting, however, that there are difficulties in funding new infrastructures which raises the risk of a "stop and go" dynamics in the works implementation in the next few months. The major threat for public investments is a continuation of policy uncertainty well into 2008, should the newly elected government be unable to quickly carry out effective action for the realisation of already approved projects.

CHINA. Output growth over the past three quarters has been the fastest since 1994 and has been driven – as usual – by booming exports and strong investment. As for the latter, it continues to be underpinned by the rapid expansion of money supply as the central bank intervenes to neutralise the impact of the expanding current account surplus and of surging foreign capital inflows on the *yuan* exchange rate. The availability of cheap credit is also fuelling a boom in both the property and the stock market. Authorities have implemented administrative controls in a bid to curb credit growth. However, the tightening stance has been so far insufficient. As a matter of fact, the residential boom does not seem to show any sign of cooling down. The National Bureau of Statistics has announced that China's property prices (based on prices in 70 major cities around the country) rose by 8.2% y-o-y in the third quarter. In addition, the mortgage sector - a key driving force behind the rapid growth in bank lending and property prices in recent years - is continuing to expand at unabated pace. In a decade, China's mortgage loans as a share of total outstanding loans have rocketed from 0.2% to 9.4% in 2006. As for public works, the level of activity should remain solid for the rest of the year while an only slight slowdown is expected to occur in 2008 after the Beijing's Olympic Games. Perspectives are positive in the medium term for the Shaanxi, which is one among the 12 provinces in western China that have been investing – already in 2007 – about US$ 7bn in infrastructure (expressways, railways, airports and hydraulic projects) to fill the gap with the coastal areas.

INDIA. The healthy performance of the whole economy is positively impacting the construction sector. The outlook is favourable also for the next year. Housing demand continues to be boosted by strong increases in lending for mortgages which have been bolstered by massive capital inflows and by the consequent huge increase in liquidity. FDI are also feeding the private non residential component mainly as far as industrial and commercial sub-sectors are concerned. In addition, the construction sector is set to benefit from the government's large infrastructural projects launched for the modernization of highways, railways, ports, and airports.

KAZAKHSTAN. Preliminary official estimates put annual GDP growth for the January-September period to 10.1%, thanks to strong investment activity coupled with rising consumption and higher exports. This notwithstanding, some clouds appeared on the horizon early in October. As a matter of fact, the financial sector has been hit by the global liquidity crisis. The country's banks were found vulnerable to the credit crunch due to their heavy dependence on foreign borrowing. However, it looks likely that the negative effects on growth will remain fairly limited. On the one hand, the authorities will support endangered banks given the overwhelming importance of the banking sector in the Kazak economic system. On the other hand, the domestic demand boom will continue to be supported by strong oil prices.

Table 3 - **ITC Group Countries: Construction Investment Forecasts**
(% change in real terms)

		ITC SESO		**EU**		**Rexecode**			**Other sources**	
		(Oct '07)		*(Nov '07)*		*(Sept '07)*				
	2006*	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**		**2007**	**2008**
Canada	7.0	4.5	2.5			--	--		4.1	3.2 (4,5)
US	-0.3	-5.0	-4.1	-4.6	-4.6	-15.3	-6.9	(3)	-7.0	-2.1 (4,6)
France	4.4	3.7	0.6	3.0	2.4	1.3	0.7	(3)	3.9	2.4 (1,7)
Belgium	4.6	2.5	0.5	3.7	1.7	4.1	1.8	(3)	4.0	1.6 (3,8)
Spain	6.0	3.8	-1.5	4.4	1.3	4.3	1.5		4.2	1.9 (9)
Italy	2.2	2.0	-1.5	4.1	2.2	3.5	0.5		3.3	1.2 (10)
Greece	17.8	5.5	1.0	9.2	7.1	--	--		8.6	4.6 (11)
Turkey	19.8	9.0	8.0	7.7	10.7	--	--		6.5	8.6 (1,12)
Bulgaria (1)	17.6	20.0	12.0	25.0	14.0	--	--		16.7	14.8 (13)
Morocco (2)	8.6	8.0	8.0			--	--		7.0	5.6 (1,13)
Thailand	5.5	3.0	5.0			--	--		1.7	6.4 (1,12)
India (2)	11.9	11.0	8.5			--	--		14.4	13.2 (1,12,fy)
China (1)	12.8	13.0	11.0			--	--		12.0	11.8 (13)
Egypt (2)	10.7	11.0	9.0			--	--		29.7	21.0 (1,13)
Kazakhstan (1)	10.6	11.0	10.0			--	--		18.5	18.0 (13)

* Actual

(1) Gross fixed capital formation, for India "fy": fiscal year data beginning April 1st; (2) Value added; (3) Private residential investment; (4) Private construction investment; (5) Toronto Dominion Bank Financial Group, October 2007; (6) Economy.com, October 2007; (7) Crédit Agricole, October 2007; (8) IRES, Université de Louvain, October 2007; (9) BBVA, October 2007; (10) ISAE, October 2007; (11) National Bank of Greece, October 2007; (12) Consensus Forecast, October 2007; (13) Economist Intelligence Unit, October 2007