



Economic Profile in ITC Group Countries

Highlights

Global Economic Conditions:

Real Indicators
Financial Indicators

Countries:

United States
Canada
France
Belgium
Italy
Spain
Greece
Bulgaria
Egypt
Morocco
Turkey
Thailand
India
China
Kazakhstan

Key to Abbreviations

ar	annual rate
bn	billion
ch	change
d	day
lhs	left hand side
m	month
ma	moving average
mn	million
mom	month-on-month
nsa	not seasonally adjusted
o/n	overnight
pa	per annum
Q	quarter
rhs	right hand side
sa	seasonally adjusted
saar	seasonally adjusted at annual rate
tn	trillion
wda	working days adjusted
y	year
yoy	year-on-year

Based on all information up to December, 19th 2007

Available in @Gold

Highlights

- Both in the US and the euro area GDP figures for the third quarter have been fairly good, but a weakening of the macroeconomic setting is clearly looming in the horizon.
- The oil price has reached all-time-highs even in real terms and energy mkts are now expected to remain tighter than previously estimated.
- The sub-prime crisis has triggered a financial turmoil spread far beyond the US and it is now widely believed that its far-reaching consequences will be felt for long.
- The dollar weakness has deepened in the last few months. Given the different monetary stance on the two Atlantic sides, the dollar slide – particularly vis-à-vis the euro – may be not over.
- Inflation is again a threat in the industrial area, hovering around 3 and 4% in the euro area and the US, respectively. In addition, the new prices' surge poses a conflicting dilemma to monetary authorities that are confronted also with the need to soften the consequences of the ongoing financial turmoil.
- The emerging area is still in very healthy conditions. However, disruptions in the world financial markets as well as reduced imports from the industrial countries could at some point take their toll and impact sensibly on this area's economic prospects.
- Construction cycles have been diverging across the Group's countries. More in particular:
 - prospects have considerably worsened for the US, where another negative outcome is now widely expected for 2008, with the residential sector still in negative territory and the private non residential losing traction;
 - in Europe, risks of some sort of a "contagion" from the US sub-prime crisis seem on balance contained; however, a similar process – even though to a much more limited scale – could be set in motion in some European countries (in the Group's area, to start with Spain);
 - on the other hand, the Group's emerging countries are set to remain in good shape, unless some major disruption occurs in the global macroeconomic environment, such to impact heavily also on their domestic construction mkts.

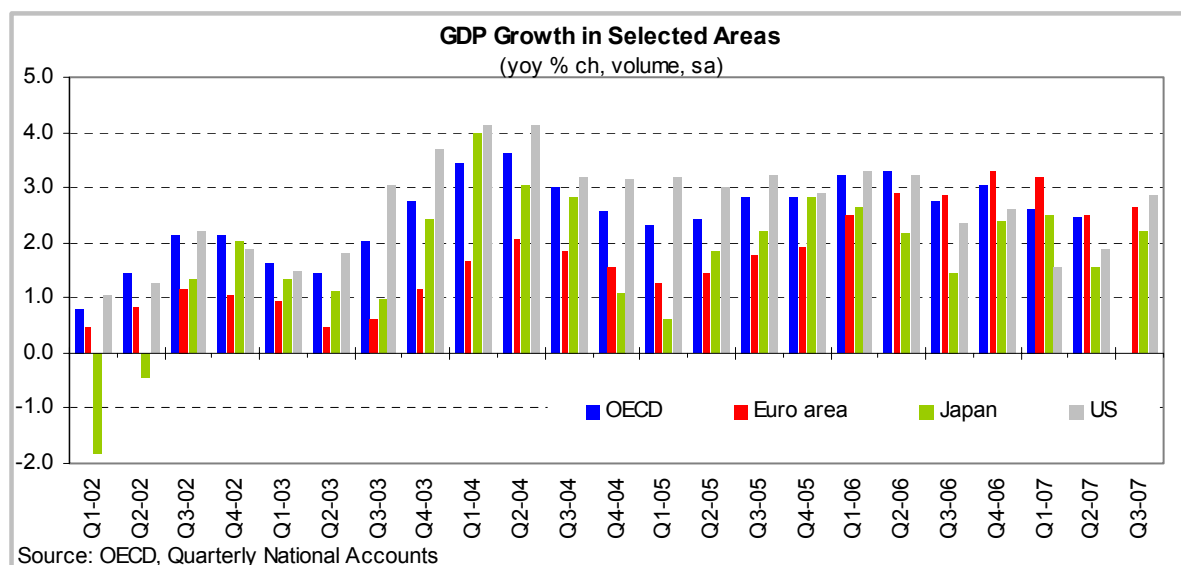
GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)	2004	2005	2006	Latest
GDP: OECD	3.2	2.6	3.0	2.5 Q2
Euro Area	1.8	1.6	2.9	2.7 Q3
US	3.6	3.1	2.9	2.8 Q3
Japan	2.7	1.9	2.2	2.2 Q3
Inflation: US	2.7	3.4	3.3	4.3 Nov
Euro Area	2.2	2.2	2.2	3.1 Nov
Oil Price Level (Brent, \$/barrel)	38.3	54.6	65.2	93.2 Nov
(yoy % ch)	32.9	42.7	19.3	57.0

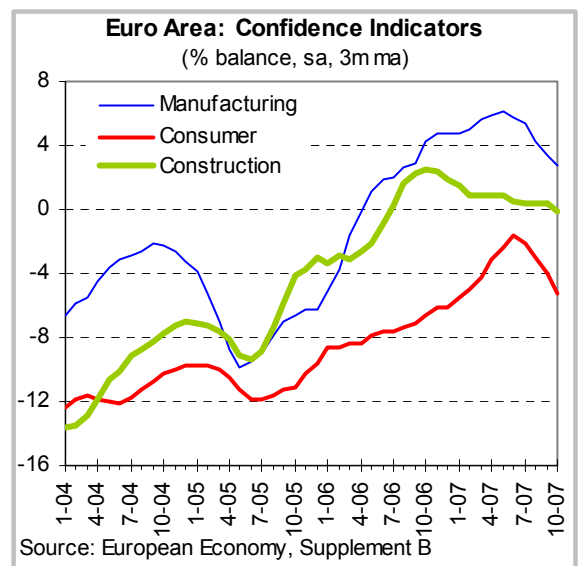
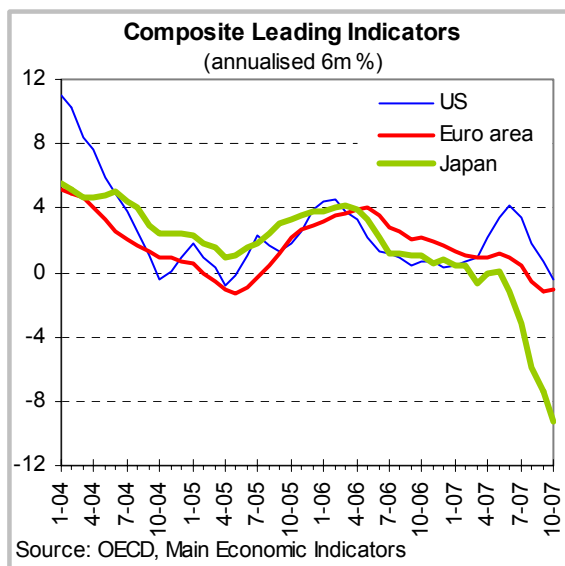
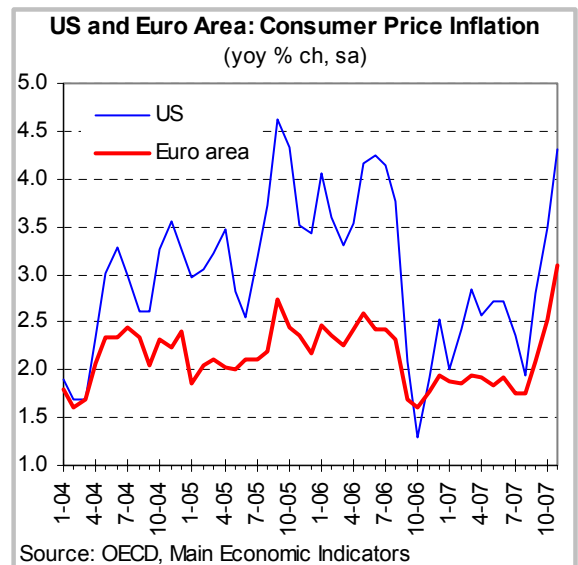
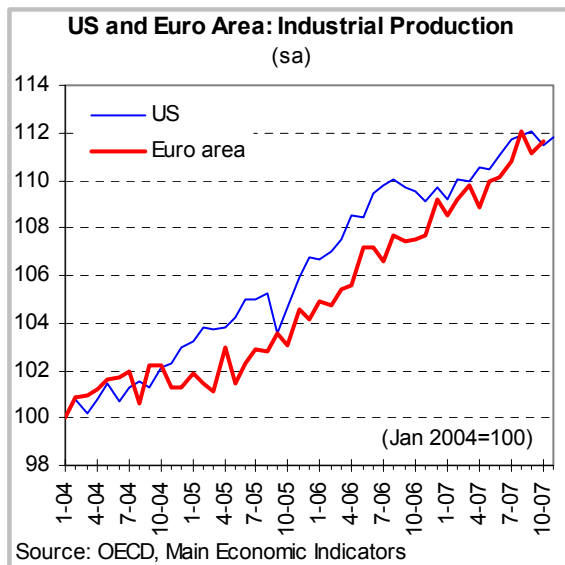
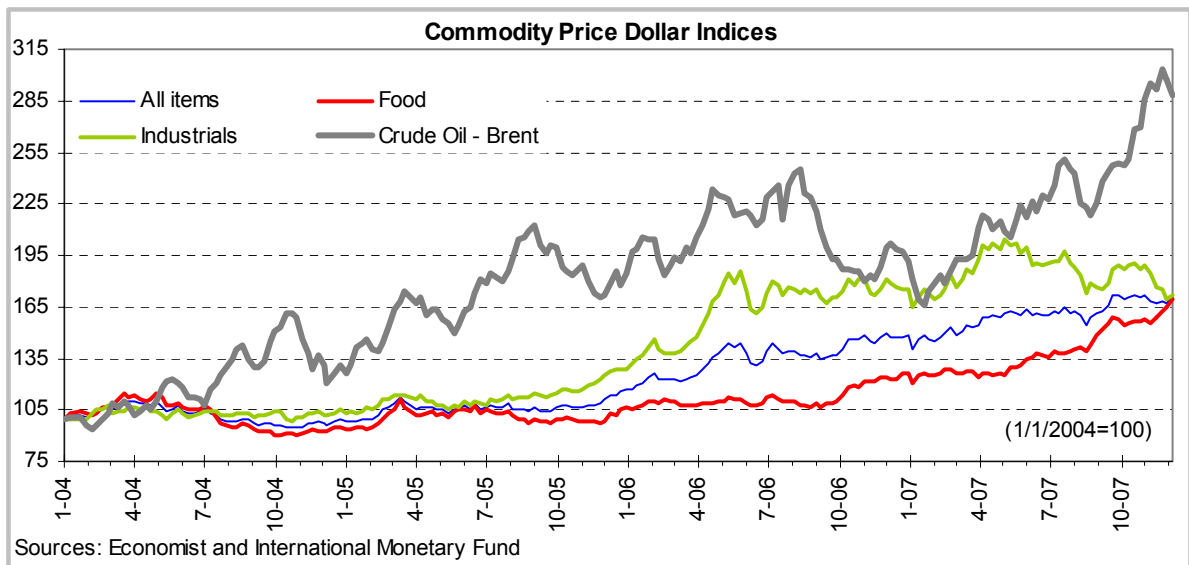
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Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, Energy International Agency

- Notwithstanding the mid-Summer financial turmoil, in the third quarter all major economic systems have rebounded as compared to the previous quarter (+0.7%, +0.6% and 1.2% in the euro area, Japan and the US respectively on a q-on-q basis). Also outside the OECD, growth has remained buoyant, driven by China, India, other Eastern Asia economies, Russia and the group of the oil producing countries. However, there are numerous signs that some slack is in the pipeline and, on balance, fourth quarter's outcomes are set to exhibit a remarkable deceleration, the more so in the US.
- Commodity prices have shown very uneven trends, with oil reaching new record highs and also food, for years a disinflationary factor, strongly on the rise. As for oil, the driver has been the continuing increase in demand, particularly from the emerging countries (only one quarter of 2007 oil demand increase comes from the OECD area). This has in turn combined with several other problems, from ongoing political tensions, to OPEC production cuts, from production unrests in numerous plants to the dollar weakness which have also made price behaviour extremely volatile. As for food prices – increased by roughly one-third from the inception of the year – supply disruptions caused by weather conditions coupled with strong demand are at the roots of the trend.
- Spurred by primary commodities' prices, inflation has been accelerating both in the industrial and the emerging economies. In the former group, in Germany and the euro area as a whole, consumers' inflation has reached the 3% threshold and some further increase may be in the horizon. However, figures referring to core inflation (i.e. net of food & energy) have remained broadly stable in most countries, which signals that the current spike may be transitory, unless wages do not react more intensely to the ongoing upturn. In the emerging area, price dynamics has been more uneven with a number of the Group's countries (from Bulgaria to China and Kazakhstan) suffering from strong acceleration due to both domestic and the above mentioned international factors.



REAL INDICATORS



GLOBAL ECONOMIC CONDITIONS: Financial Indicators

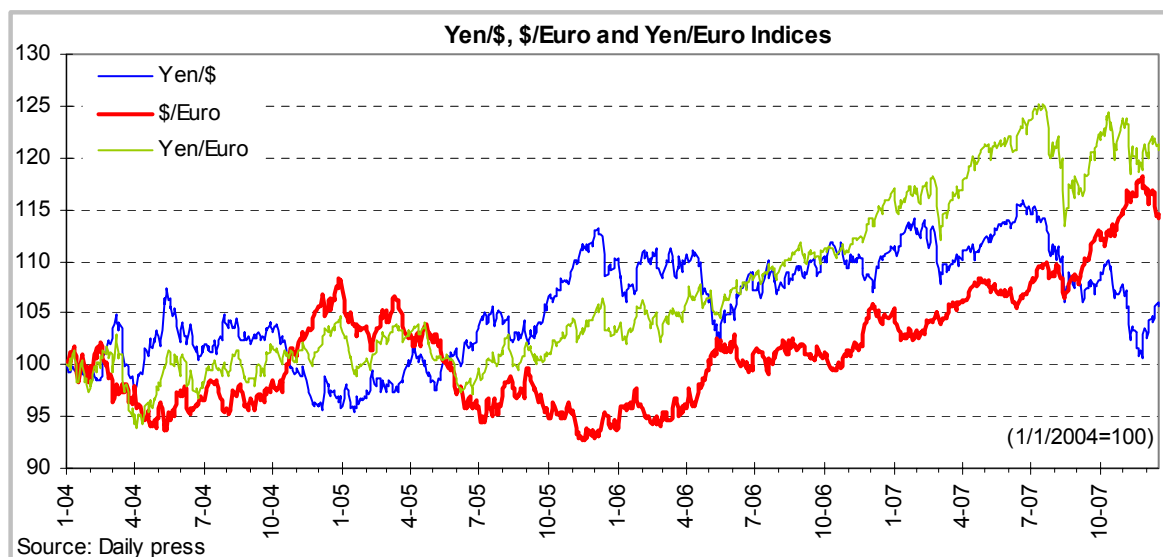
	2004	2005	2006	Latest
Dollar/Euro Exchange Rate	1.244	1.244	1.256	1.327 *
Policy Rates (end of period):				
- US (target for federal funds)	2.25	4.25	5.25	4.25 06/12/07
- Euro Area (repo rate)	2.00	2.25	3.50	4.00 13/06/07
Long Term Interest Rate (10y government bonds, year average):				
- US	4.27	4.29	4.79	4.15 Nov
- Euro Area	4.14	3.44	3.86	4.26 Nov

Notes:

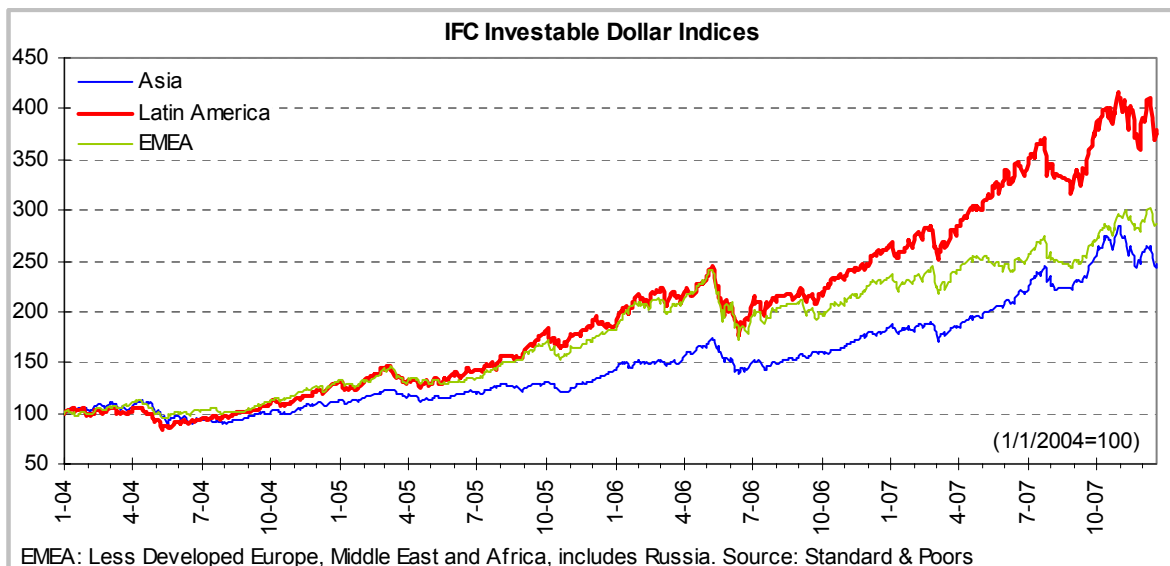
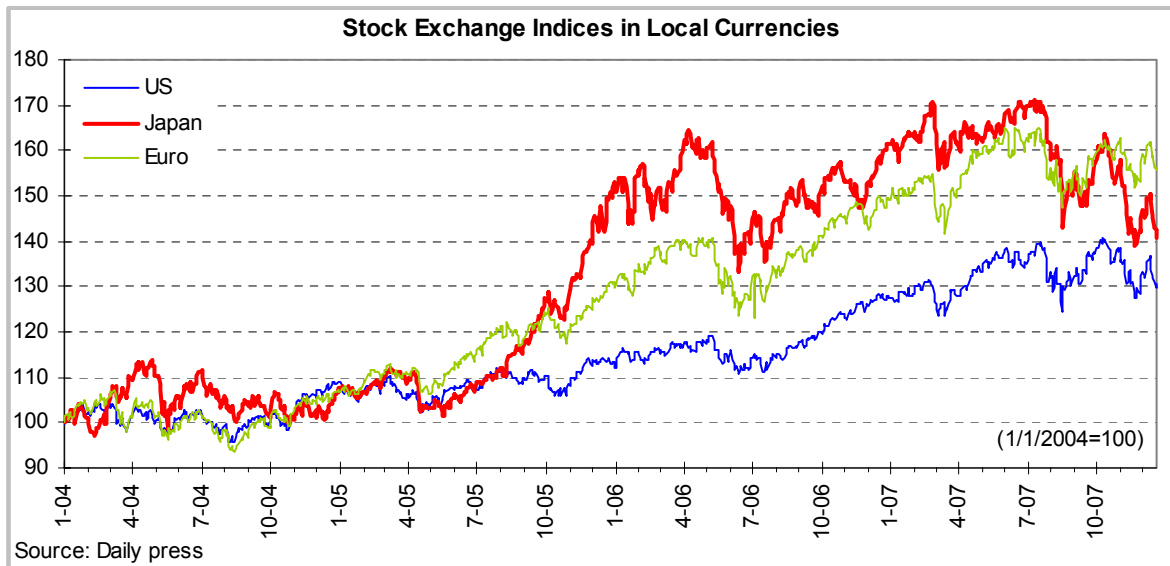
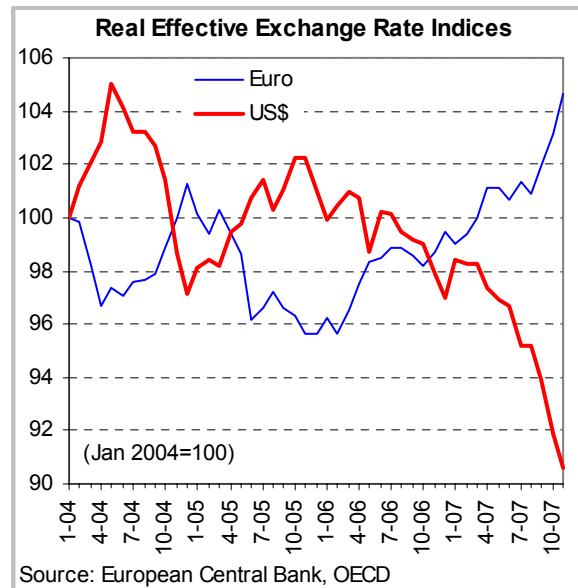
* Average from 2/1/2007 to latest available data

Sources: European Central Bank and Federal Reserve Bank

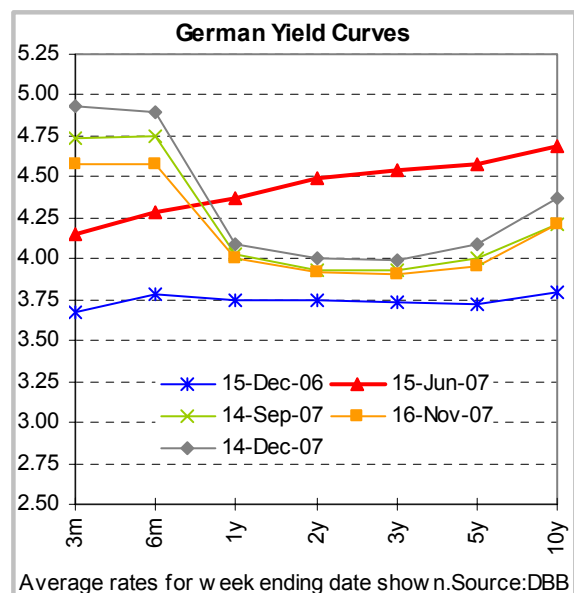
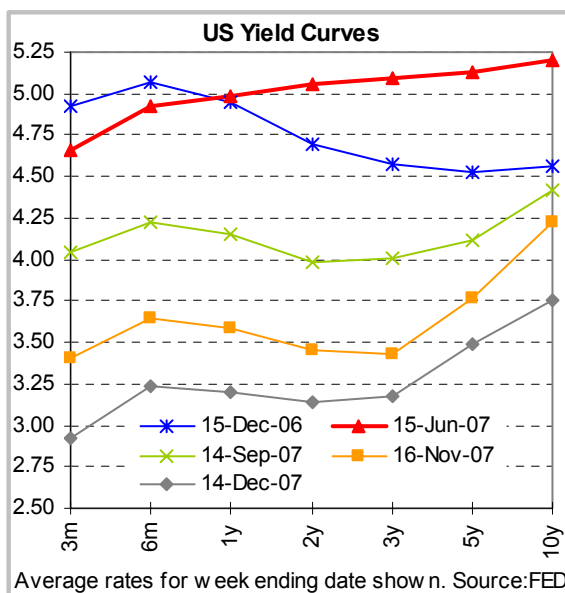
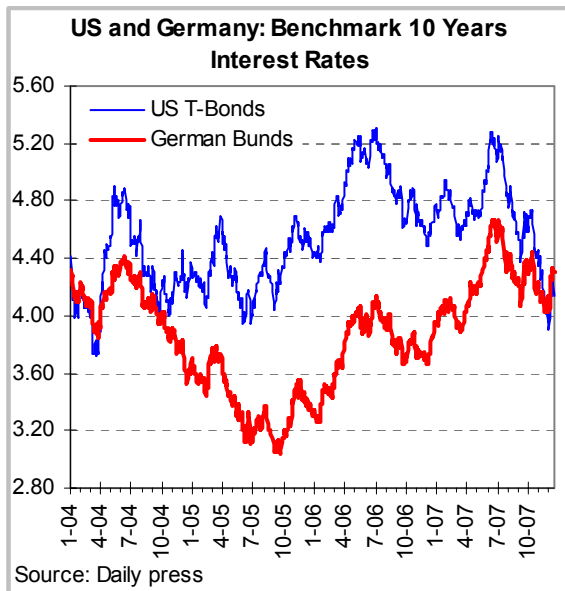
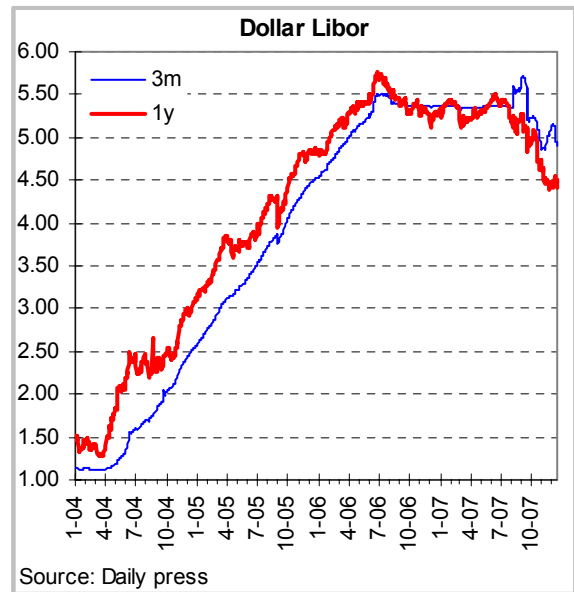
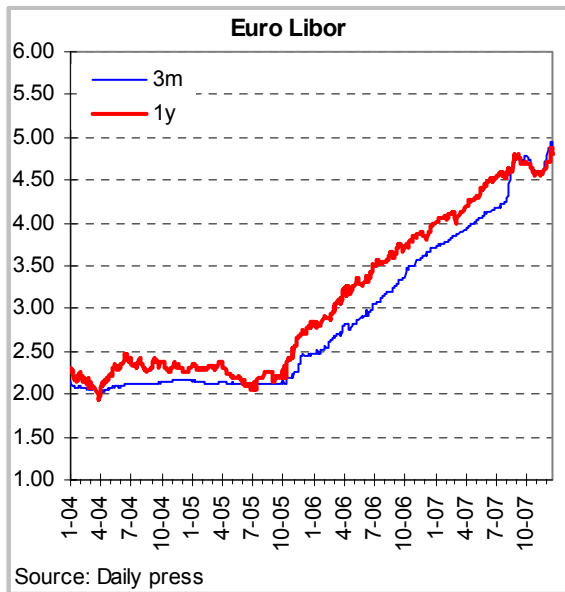
- The Fed has cut interest rates by a full percentage point as of September while other major central banks – to start with ECB – have not raised their policy rates in contrast with previous widely-shared market sentiment. This abrupt change in the monetary stance has been triggered by the mid-Summer outbreak of the sub-prime crisis. Further active interventions by the central banks through strong liquidity injections as well as US government plans designed to ease the pressure on the weakest component of sub-prime borrowers, have not been able to re-establish orderly conditions in the financial markets. Inter-bank rates have increased substantially while the flight to quality on all maturities has been reflected in a sharp increase of interest spreads.
- Stock prices have shown mixed results after the sub-prime crisis broke-out. Volatility has increased and also inter-sectoral dynamics have been widely diverging. In fact, corporate profits remain solid on both Atlantic sides, and monetary authorities' prompt reaction has helped contain the price correction. An increased volatility has been observed also in emerging countries. However, stock prices have furtherly improved in most markets, which signals that, in sharp contrast with the past, assets of the emerging area have been targeted as good opportunities at a time of widespread financial turmoil.
- Since mid-Summer the dollar has exhibited renewed weakness vis-à-vis the major currencies. At close to 1.5 vis-à-vis the euro, the devaluation has exceeded 20% in the last two years. However, in the same period, the dollar depreciation in real terms has been much more contained (in the order of 8%). The new wave of the \$ weakness has meant in a number of the Group's emerging countries (particularly Egypt, Morocco, Turkey, India and China) a sizeable appreciation vis-à-vis the US currency also as an effect of the foreign investors' appetite for their financial and real assets. As a consequence, there has been only a slight weakening vis-à-vis the euro, but in the case of Turkey, whose currency has been appreciating in the last few months also in euro terms.



FINANCIAL INDICATORS



FINANCIAL INDICATORS



UNITED STATES

Real Indicators*	2004	2005	2006	Latest
GDP	3.6	3.1	2.9	2.8 Q3
Industrial Production	2.5	3.2	4.0	0.3 Nov**
Construction Materials Production	2.0	4.8	3.5	-0.1 Nov**
Construction Investment	5.1	3.3	-0.3	-4.4 Q3
Housing Starts - Private	5.9	5.8	-12.9	-24.2 Nov
Consumer Prices***	2.7	3.4	3.3	4.3 Nov
Producer Prices - Finished Goods***	3.7	4.8	3.0	7.2 Nov
Hourly Earnings - Manufacturing***	2.5	2.6	1.4	2.7 Nov
Standardised Unemployment Rate (%)	5.5	5.1	4.6	4.7 Nov
Current Account Balance (US\$bn)	-640.2	-754.9	-811.5	-752.4 Q3°
- as a percentage of GDP	-5.5	-6.1	-6.2	-5.5
Real Effective Exchange Rate Index [§]	94.7	93.3	92.6	83.7 Nov

Notes:

* % yoy ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (3m CD)	1.56	3.51	5.15	4.97 Nov
Long Term Interest Rate pa (benchmark 10y)	4.27	4.29	4.79	4.15 Nov
Stock Exchange (S&P 500) Index (% ch)*	17.2	6.8	8.5	2.4 19/12/07**

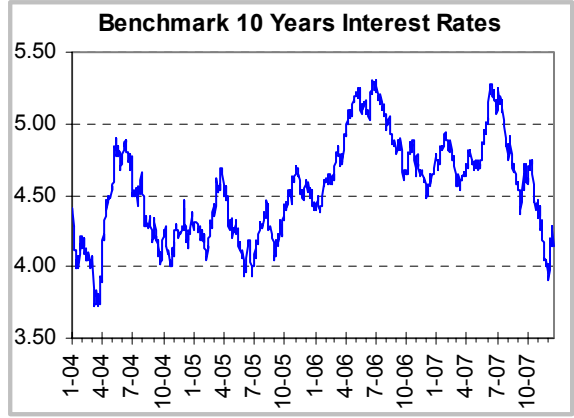
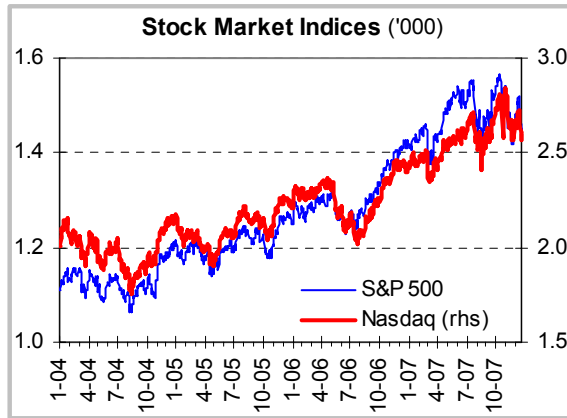
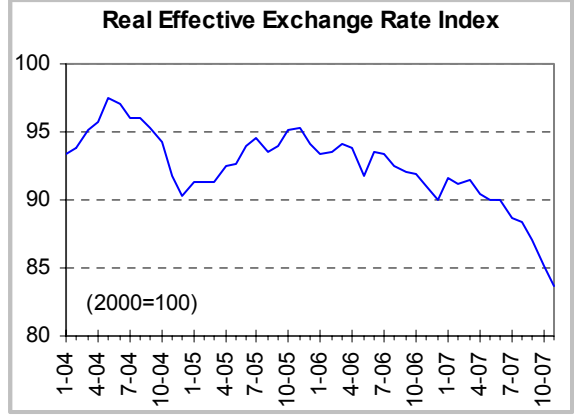
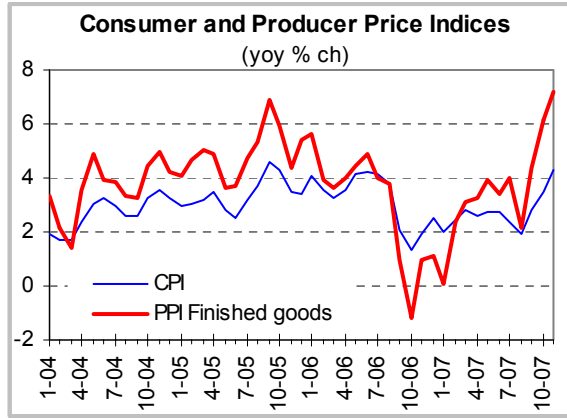
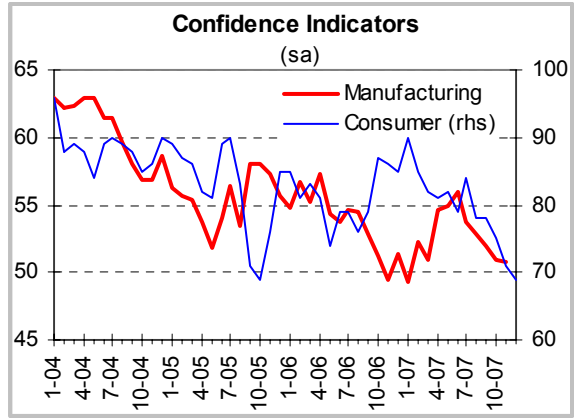
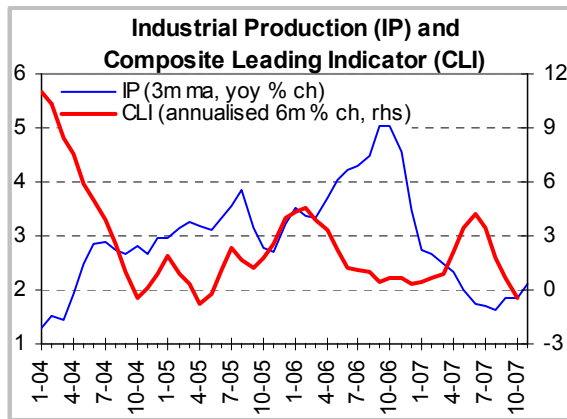
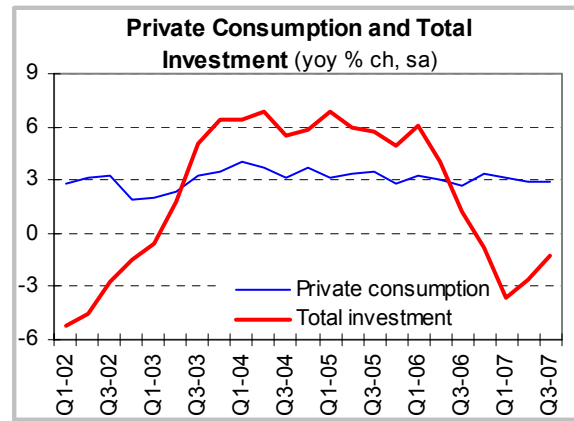
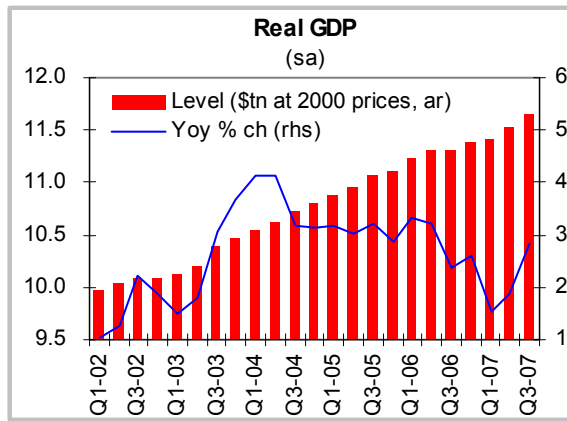
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, FED, Bureau of Economic Analysis, Bank of International Settlements (BIS), daily press

- Third quarter GDP growth surged to an annualised 4.9% q-o-q from the 3.8% increase reported in Q2. The build up of inventories as well as a stronger contribution from net exports were at the roots of this largely unexpected acceleration. Particularly the latter implies that the US economy is now getting support from the earlier depreciation of the US\$ and strong global growth.
- The above favourable outcomes were achieved despite marked weakness in residential investment (see below), which reduced overall third-quarter growth by one percentage point. In fact, weakening house prices have not had so far much of an impact on consumer spending, through reduced mortgage equity withdrawal and a negative wealth effect. However, it is much likely that such effects will start unfolding in the coming quarters thus hitting households' consumption severely.
- In this respect, an early indicator can be seen in the retail sales readings, which suggest that consumers are becoming more cautious in their spending decisions. This is consistent with the many-fold drags on the consumers' conditions that are currently at play. As a matter of fact, together with the housing market woes, job growth has slowed while energy prices are well above their levels of one year ago.
- Inflation jumped by 0.8% m-o-m in November, the fastest rate in more than two years. The headline figure received a significant boost from energy, whose prices surged 5.7% m-o-m. Despite growing inflationary risks, the Fed seems to remain more concerned about downside risks to the economy. In fact, it cut the key federal funds rate by 25 basis points, to 4.25%, on December 11th and another cut is now expected in the first quarter of 2008.
- The combination of slower growth of domestic demand, robust international economy and a declining dollar has been pushing the current account deficit down as it stood at 5.1% of GDP in Q3, definitely down from the peak (6.8% in Q4 05).

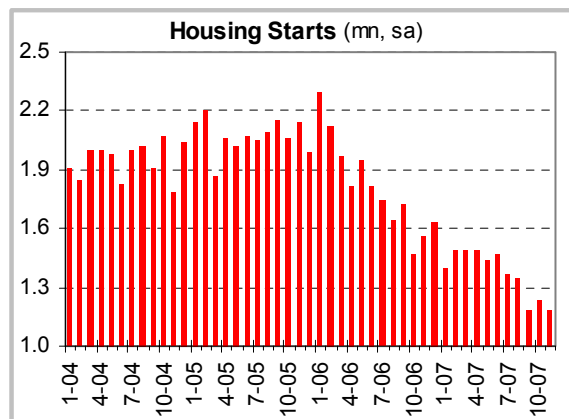
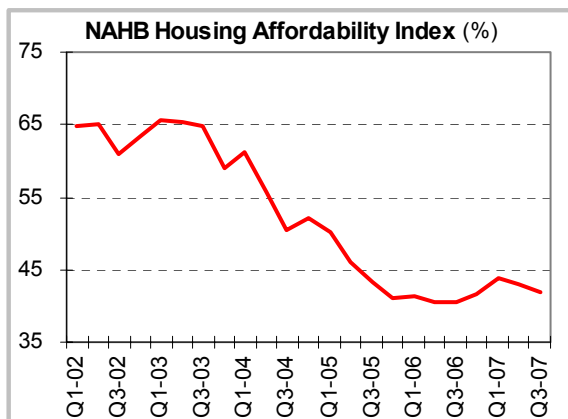
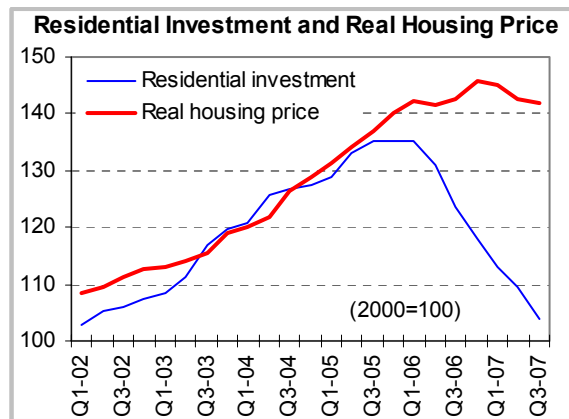
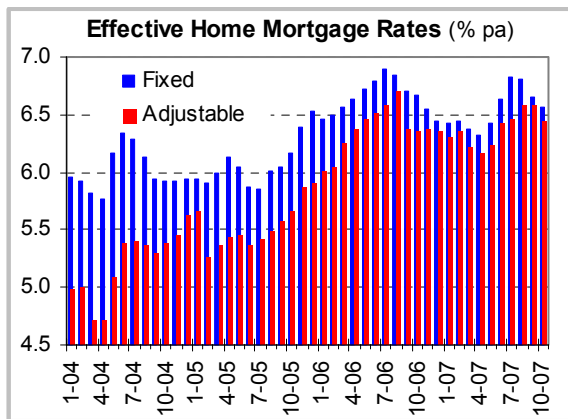
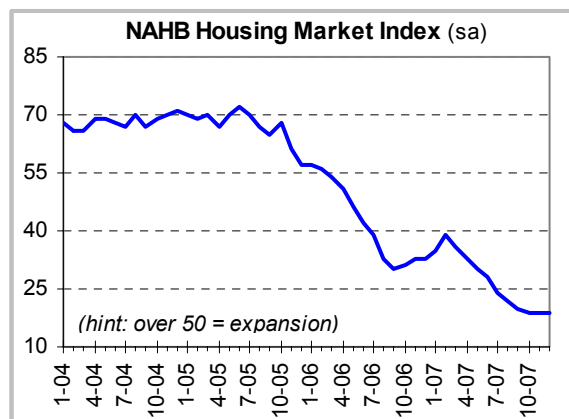
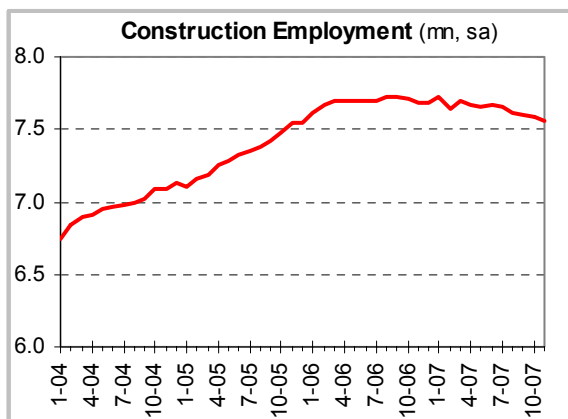
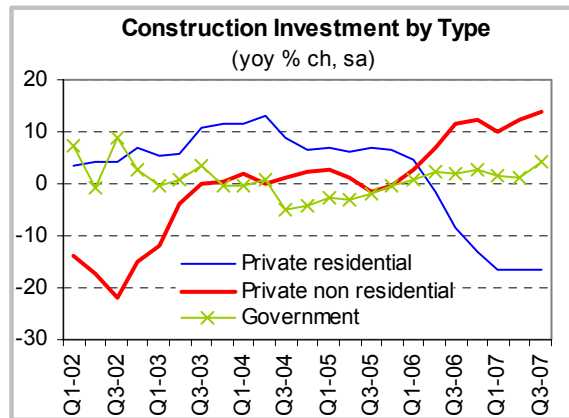
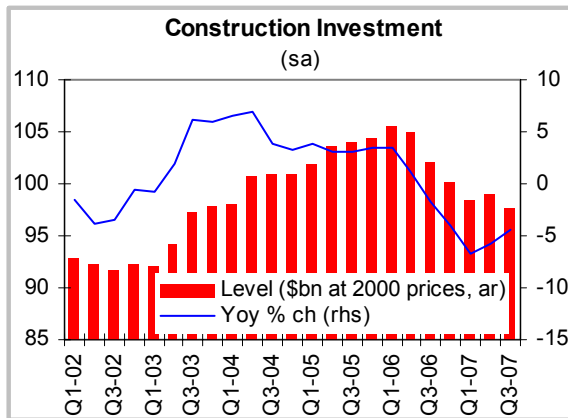
UNITED STATES



Sources: OECD, Bureau of Economic Analysis, Bureau of Labor Statistics, BIS, daily press

UNITED STATES

Business Conditions in the Construction Sector



Sources: US Census, National Association of Home Builders, Dept. of Labour, Federal Housing Finance Board, Bureau of Economic Analysis, Bureau of Economic Analysis, Bureau of Labour Statistics, OFHEO

UNITED STATES

- According to national accounts data, overall construction investment continued to drop in Q3 07 (-4.4% y-o-y and -1.3% q-o-q).
- The housing sector remains mired in a recession (-16.5% y-o-y and -5.4% q-o-q) with most sectoral indicators remaining dismal, which suggests that the housing market has not bottomed out yet. As a matter of fact, the housing market index from the National Association of Homebuilders reached its lowest level since early 1985. Moreover, in October new home sales were down by a considerable 24% on a year-ago basis, while existing home sales dropped by 5.1% m-o-m (-21% y-o-y). On a cumulative basis, housing starts have lost just over 25% in the January-September period. The S&P/Case-Shiller index shows that home prices are rapidly declining particularly in cities where the residential boom was stronger. The decline is the deepest and most broad-based the index has ever indicated since 1975.
- Demand for housing is also being held down by the ongoing tightening of mortgage lending standards and reduced speculative activity. With demand subdued and inventories of unsold homes rising, the downward pressure on house prices is still building up. Both home prices and housing starts must drop further from current levels in order to bring inventories to more normal levels.
- Mortgage credit quality is rapidly deteriorating. Data indicate substantial increases in default rates. On an annualized basis, the number of mortgage defaults in the third quarter equalled 1.5 million, putting hundreds of thousands of households on the path to foreclosure.
- Recent news from the embattled mortgage market adds to the gloom. The problems that pushed earlier this year large sub-prime lenders such as American Home Mortgage into Chapter 11 are now spreading to larger, more diversified banks. Origination volumes are plummeting; layoffs are mounting; and third-quarter reports are coming in below already weak expectations. As a consequence of the above reasons, the Fed decided recently to support the banking sector accepting for the first time the AAAs' collateralised debt obligation as a guarantee for its open market lending operations.
- Activity in non the residential segment remains brilliant (+13.3% y-o-y and +3.4% q-o-q), although the current momentum is expected to subside next year due to cooling macroeconomic conditions.
- According to government data, public construction grew briskly in Q3 07 (4.2% y-o-y and 1.4% q-o-q). The US government has consistently allocated funds for development and reconstruction activity. Major US infrastructure projects on the anvil include the US\$ 15bn expansion of the O'Hare International Airport in Chicago; the US\$6.3 bn extension of the Long Island Rail Road; the US\$ 3bn high-speed Victorville-to-Las Vegas train, and the US\$2.9 bn improvement of the Phoenix Sky Harbour International Airport.

CANADA

Real Indicators*	2004	2005	2006	Latest
GDP	3.1	3.1	2.8	2.9 Q3
Industrial Production	2.0	1.3	-0.7	0.1 Sep**
Construction Production	6.3	5.6	7.2	0.4 Sep**
Construction Investment	6.7	7.3	7.0	4.2 Q3
Consumer Prices***	1.9	2.3	2.0	2.5 Nov
Producer Prices - Manufacturing***	3.1	1.5	2.4	-1.0 Oct
Hourly Earnings - Manufacturing***	2.6	1.9	0.5	3.5 Sep
Standardised Unemployment Rate (%)	7.2	6.8	6.3	5.9 Nov
Current Account Balance (Can\$bn)	29.1	27.9	23.6	18.4 Q3°
as a percentage of GDP	2.3	2.0	1.6	1.2
Real Effective Exchange Rate Index [§]	112.1	118.7	125.4	140.9 Nov

Notes

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	2.25	2.66	4.02	4.51 Nov
Long term interest rate pa (benchmark 10y)	4.59	4.07	4.21	4.13 Nov
Stock Exchange (TSE) Index (% ch)*	20.7	17.6	18.4	3.7 19/12/07**

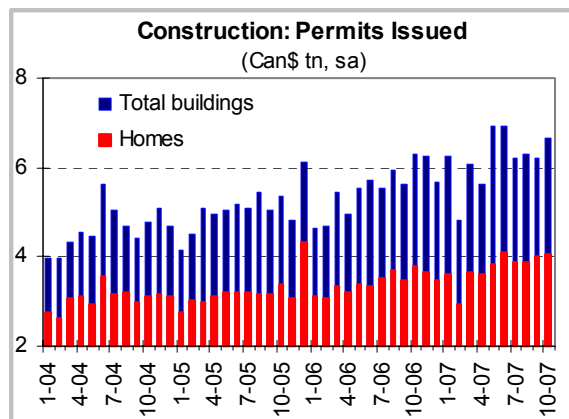
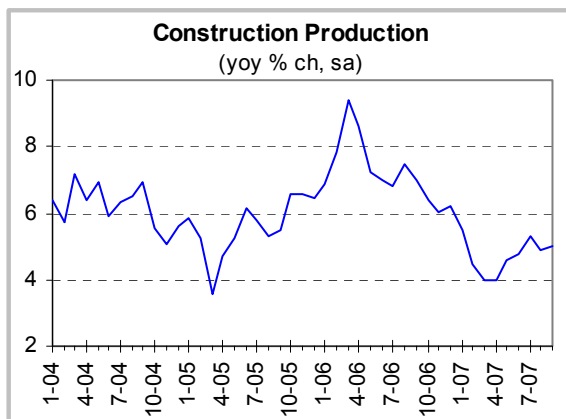
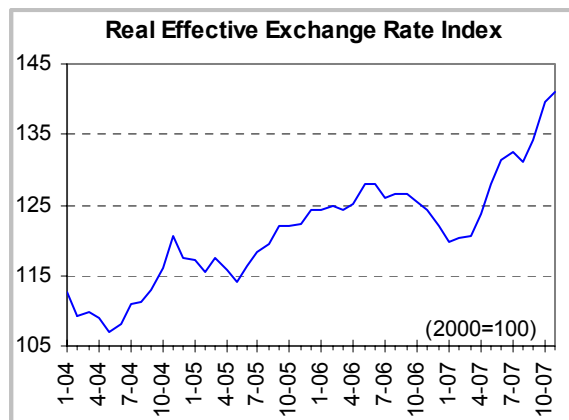
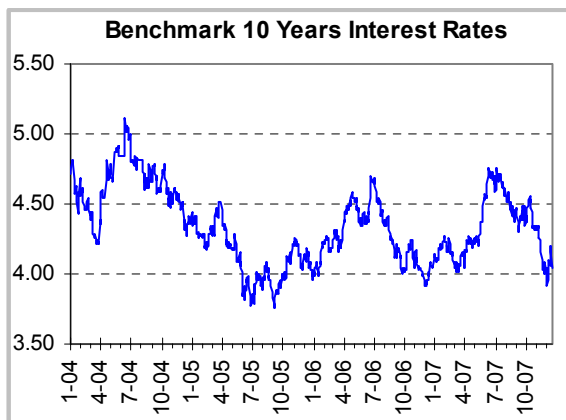
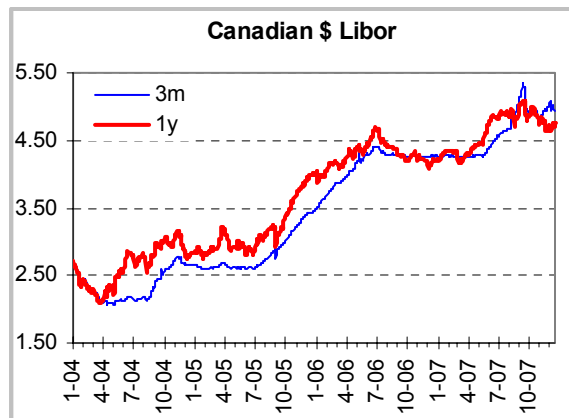
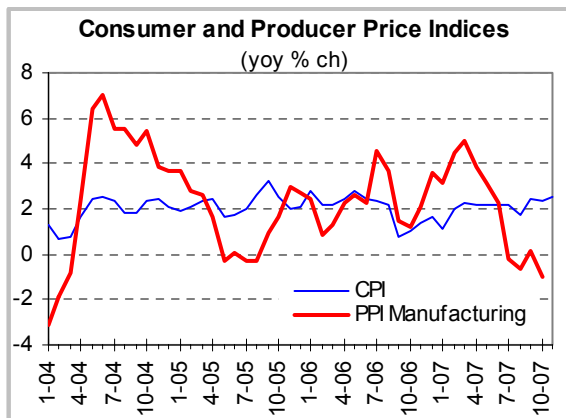
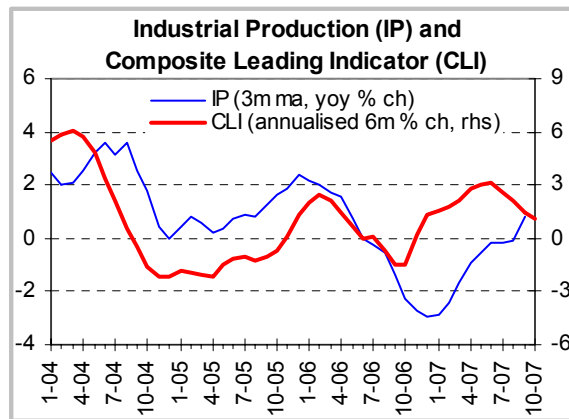
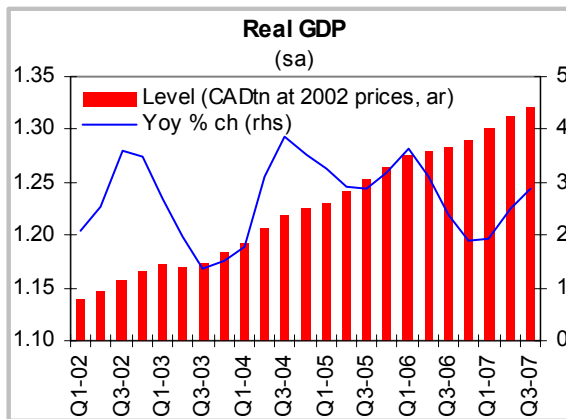
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, Statistics Canada, BIS, daily press

- Real GDP rose by an annualised 2.9% q-o-q in Q3. This followed an upwardly revised growth of 3.8% in the second quarter. Business investment in fixed capital expanded by 7.6%, the largest gain in one year and a half, while government investment picked up by 6.5%. There were also unusually large contributions from a massive build-up of inventories. Although domestic expenditure was particularly strong (+4.8%), much of this was met through imports rather than domestic production. Indeed, external trade deteriorated as real export annualised growth slowed to 2.3% from 3.1% in the second quarter, while import growth climbed to 18.6% from 7.7% in the previous three months, thus making up an enormous drag on GDP growth (about -1.5 pp).
- The y-o-y inflation rate rose by 2.5% in November, a slightly quicker pace than in the previous month. The Bank of Canada (BC)'s core inflation rate remained below the Bank's 2% target for the second month in a row (1.6%). The softening of core inflation may have occurred as retailers are more aggressively cutting prices on the back of the surge of the *loonie* above parity. However, strong domestic demand kept the economy operating above its production potential in the third quarter, which signals that upside risks to the inflation in the months ahead are not negligible.
- The BC cut the overnight rate by 25 basis points, to 4.25%, on December 4th, highlighting the growing risks to the outlook for Canadian exports, given the prospects of a slower US economy and tightening in global credit conditions.
- Total investment in residential structures has grown 4.8% y-o-y in Q3, compared with 1.8% in Q2 and a decline of 1.0% in Q1. Housing starts were essentially flat in November. The level of housing activity year-to-date has been the highest since 2004. However, robust house price increases have dented the affordability index in recent quarters, which may herald some weakening of the housing market in the next few months.

CANADA



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2004	2005	2006	Latest
GDP (wda)	2.3	1.7	2.2	1.8 Q3
Industrial Production	2.5	0.2	0.4	2.1 Oct**
Construction Production	2.1	3.5	4.7	-0.2 Oct**
Construction Investment	3.3	4.0	4.4	3.0 Q3
Consumer Prices - Harmonised Index***	2.4	1.8	2.0	2.6 Nov
Producer Prices - Manufactured Goods***	1.2	1.8	2.5	1.8 Oct
Hourly Earnings - Manufacturing (<i>ouvriers</i>)***	2.7	2.9	2.8	2.8 Q2
Standardised Unemployment Rate (%)	9.6	9.7	9.5	8.1 Oct
Current Account Balance (€bn)	8.5	-15.7	-22.5	-21.0 Q3°
as a percentage of GDP	0.5	-0.9	-1.3	-1.1
Real Effective Exchange Rate Index [§]	110.3	108.8	108.1	110.3 Nov

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	4.64 Nov
Long Term Interest Rate pa (benchmark 10y)	4.10	3.41	3.80	4.23 Nov
Stock Exchange (CAC) Index (% ch)*	18.2	15.8	19.7	-0.8 19/12/07**

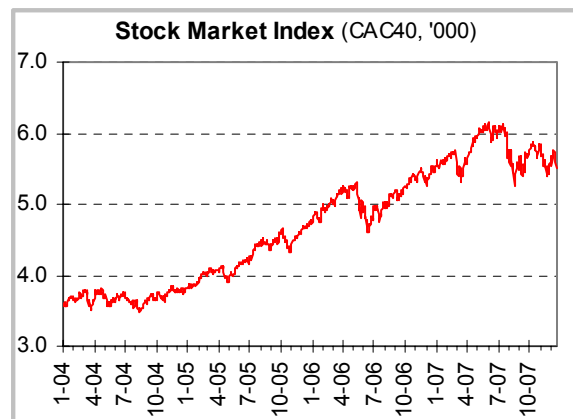
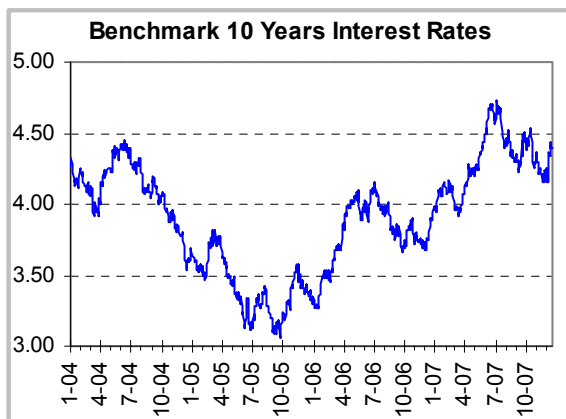
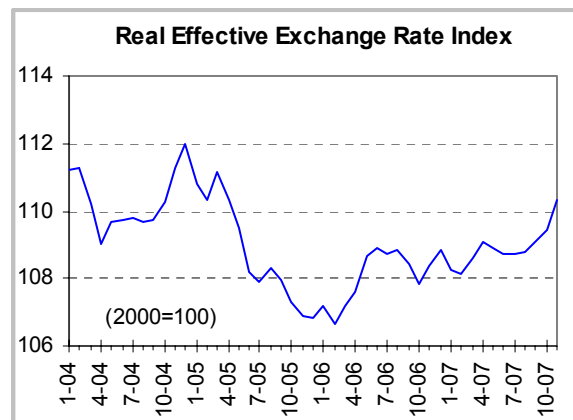
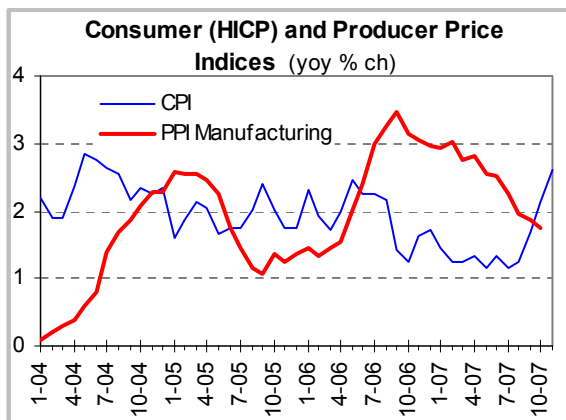
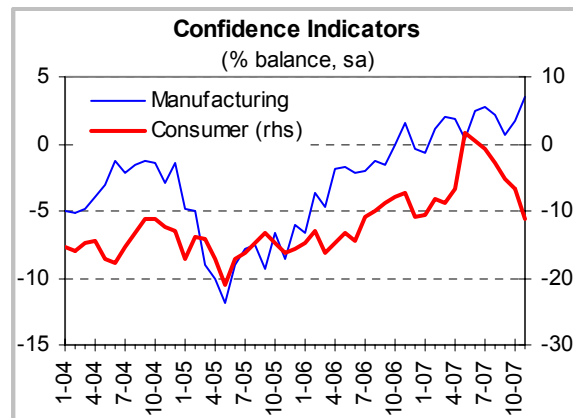
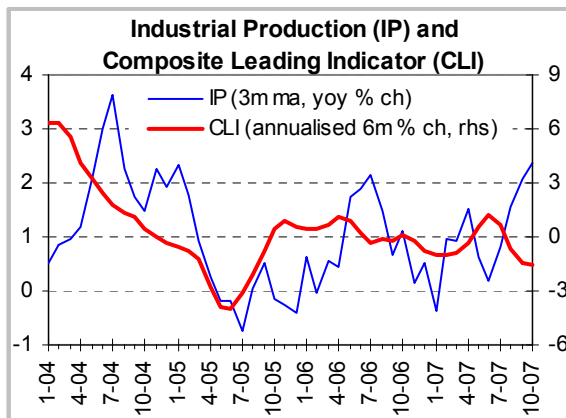
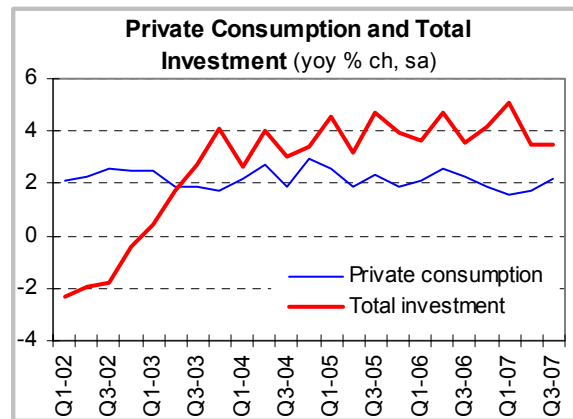
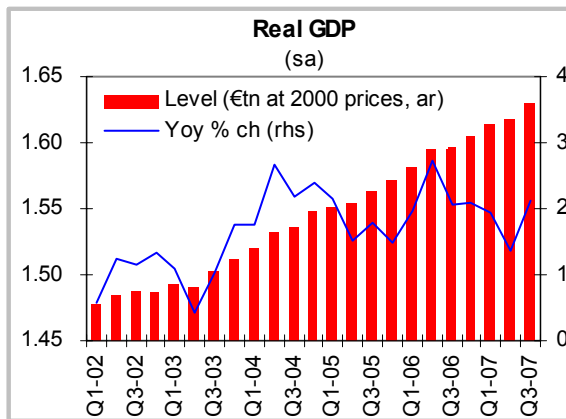
Notes:

*Average over year; ** % change on 31/12/06

Sources: OECD, Banque de France, INSEE, BIS, daily press

- France's GDP growth accelerated to 0.7% q-o-q in Q3, the fastest pace in more than a year and more than double the Q2 outcome. Household spending rose by 0.8% q-o-q, the largest increase in one year and a half, and gross fixed capital formation picked up to 0.6%. Real exports rose by 1.7%, a one-and-a-half year high, while import growth slowed to 1.4% (from 1.8% in Q2).
- However, according to the monthly business report published by the Bank of France, GDP is expected to slow down markedly in Q4, bringing annual average growth to 1.9%. The report also indicates that industrial activity fell in November, although the level of new orders remained stable and the persistent buoyancy of confidence business indicators. Furthermore, activity in market service sectors decelerated, also due to the recent transport strikes.
- The deferred impact of the improvement in the labour market and the various measures of the recent "fiscal package" will continue to spur households' disposable income. Mortgage interest deductibility, in particular, should allow the negative effects of tightening loan conditions and high house price levels to be partially mitigated. Furthermore, recent proposed measures, notably the early release of profit sharing schemes and the payment of RTT (*Réduction du temps de travail*) days accumulated under 35-hour legislation should give additional support to consumption.
- Harmonized inflation came in at 2.6% y-o-y in November, well below the Euro area average of 3%. However, this represents the highest reading since May 2004. Beyond an expected unfavourable base effect and oil-driven upside pressure on transport, the acceleration in consumer prices was exacerbated by a sustained increase of food prices and, to a lesser extent, health and housing services, particularly those related to rent, water and waste collection.
- France's budget deficit is widening. The government has already indicated that in 2007 there will be a pause in the downwards path concerning both the budget deficit and the debt, as a result of a series of fiscal and financial measures aimed at fuelling the economy. The government is forecasting GDP growth in the range between 2 and 2.5% in 2008, with a budget deficit of 2.2% (only 0.1 pp less than that in 2007), but most economists retain that such projections are by and large optimistic (the Consensus GDP growth forecast for the next year stands now at 1.8%).

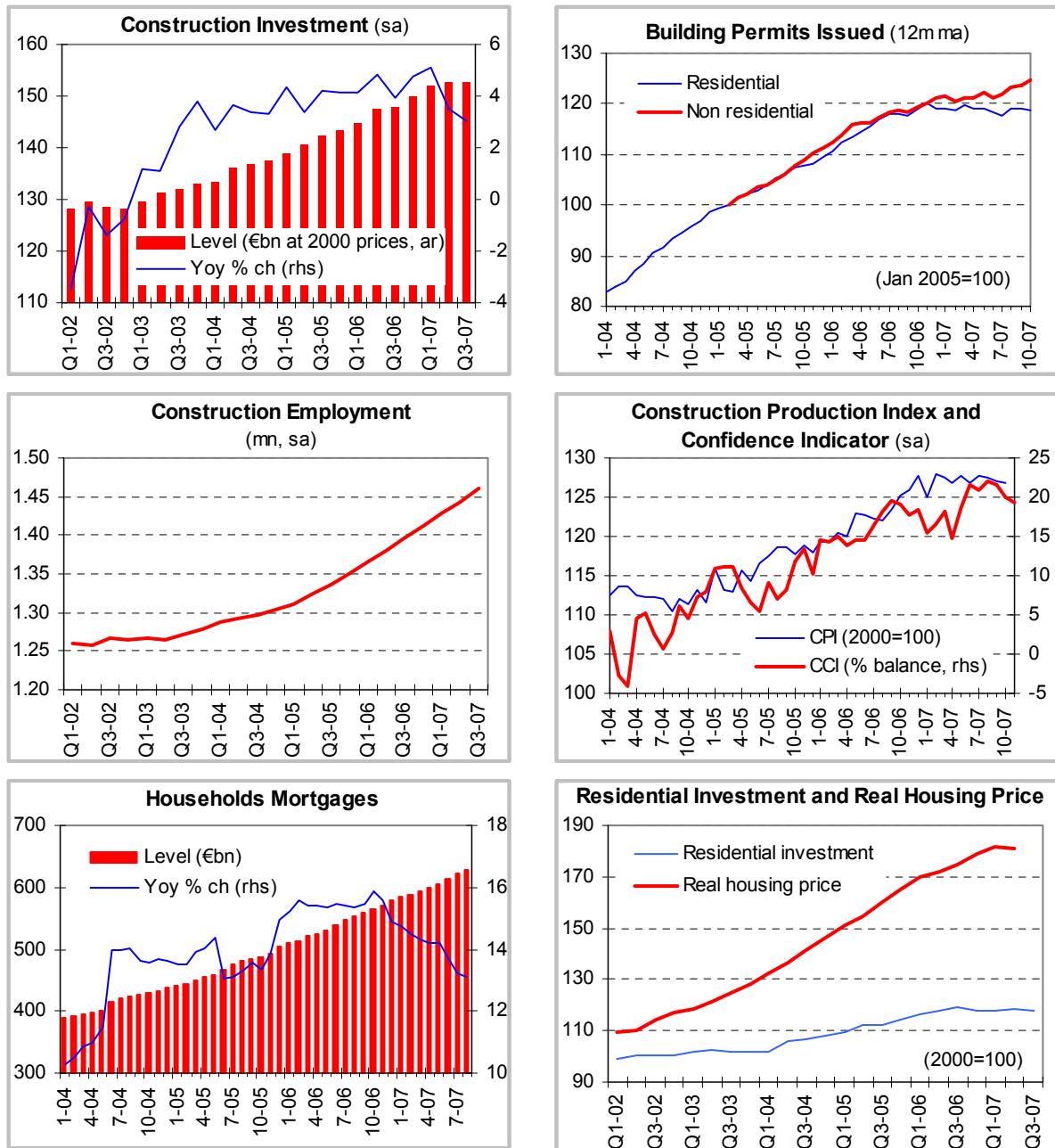
FRANCE



Sources: OECD, INSEE, BIS, daily press

FRANCE

Business Conditions in the Construction Sector



Sources: OECD, Ministère de l'Équipement, INSEE, European Commission, Banque de France

- In Q3 07 the construction sector slowed down somewhat on y-o-y basis (+3%, down from 3.5% and 5.1 in Q2 and Q1 respectively), and contracted on quarterly basis (-0.1%) for the first time since Q4 02.
- The residential segment showed a negative outcome, posting a -0.9% y-o-y and -0.3% q-o-q. The rise in short term rates, coupled with tightened credit terms, is affecting the cost of new mortgages, while the widening stock of unsold buildings is curbing activity. In addition, there is already evidence of a levelling off of purchases benefiting from the both Robien and Borloo tax-based incentives, mainly due to lower than expected rental returns.
- Positive signals keep coming from the non residential sector: in particular, permits issuance and non residential starts rose respectively by 9 and 13% y-o-y in Q3 07.
- As for public works, the new transport-funding agency will provide € 7.5bn in subsidies for the new infrastructure programme until 2012. Starting in 2008, however, the need to reduce local governments' debt after four years of sustained growth will impact on the rate of investment and induce some new infrastructure project to be postponed.

BELGIUM

Real Indicators*	2004	2005	2006	Latest
GDP (wda)	2.8	2.0	2.9	2.6 Q3
Industrial Production	3.3	-0.4	5.1	-1.3 Sep**
Construction Production	-1.8	-3.4	3.2	3.3 Oct**
Construction (Gross Value Added)	5.3	1.0	7.7	1.5 Q3
Consumer Prices – Harmonised Index***	1.9	2.5	2.4	2.9 Nov
Producer Prices***	4.3	2.7	5.0	2.7 Oct
Hourly Earnings-Industry***	2.2	2.5	2.2	1.6 Q3
Standardised Unemployment Rate (%)	8.4	8.4	8.2	7.3 Nov
Current Account Balance (bn €)	10.2	7.9	8.6	9.5 Q2°
as a percentage of GDP	3.5	2.6	2.7	3.0
Real Effective Exchange Rate Index [§]	109.2	109.2	108.8	111.3 Nov

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	4.64 Nov
Long Term Interest Rate pa (benchmark 10y)	4.06	3.37	3.81	4.28 Nov
Stock Exchange (BEL20) Index (% ch)*	29.4	25.0	22.2	-8.0 19/12/07**

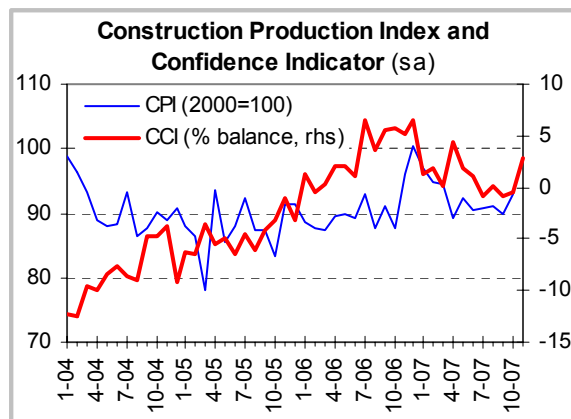
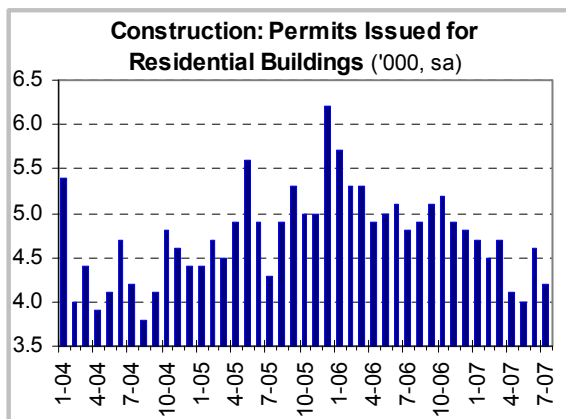
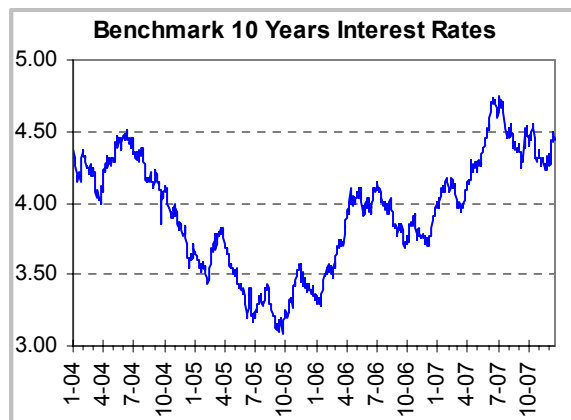
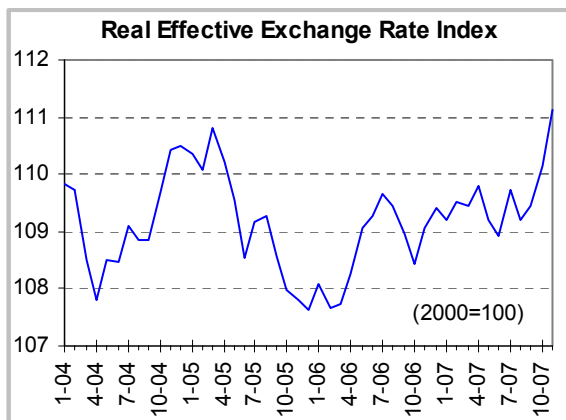
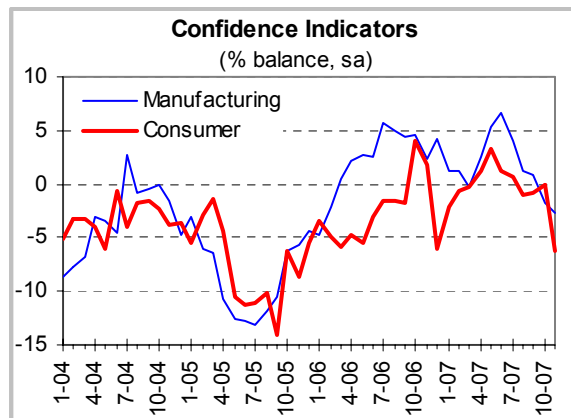
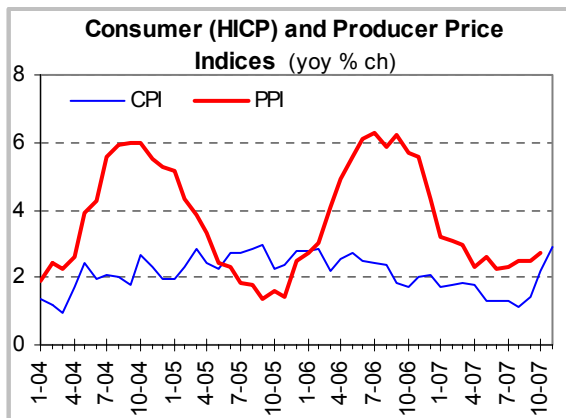
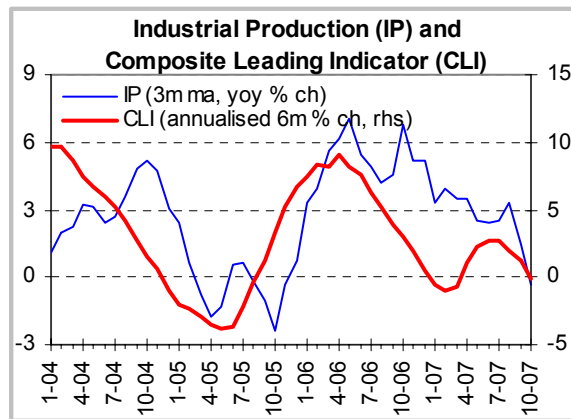
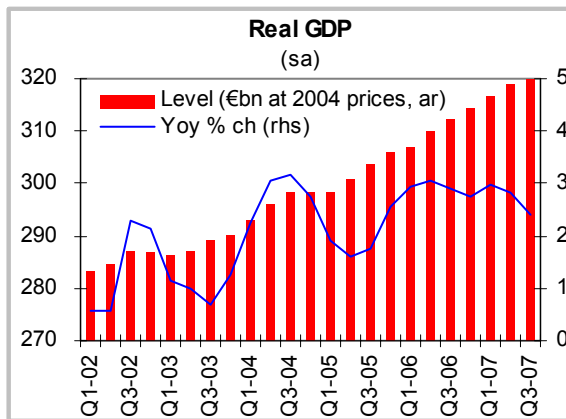
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, Institut National de Statistique, Banque National de Belgique, BIS, daily press

- Belgian GDP growth in Q3 07 has been estimated at 0.5% q-o-q and 2.6% y-o-y, the lowest rate recorded in the past six quarters.
- Leading indicators suggest that Belgian economic activity will slow down in the coming months. High oil prices, the turmoil in the financial sector and increased stock market volatility in recent months are set to adversely affect consumer spending and business investment in the latter part of the year and well into 2008. The political stalemate originated by the results of the last June general election is also contributing to uncertainty.
- Harmonized consumer price inflation drifted upward for the third consecutive month in November, to 2.9% y-o-y (from 2.2% in October and 1.4% in September), the highest rate of inflation since December 2005. Oil prices make up the main upward risk for inflation also in perspective while, on a positive side, the strong euro should help containing pressures on import prices.
- The Federal Planning Bureau leading indicator points to a slowdown in housing investment as mortgage applications and architects' expectations about future activity have both followed a downward path during the past few quarters. In addition, the residential construction indicator has worsened considerably since the beginning of 2007. Housing investment is also dampened by the rise in mortgage rates and is thus set to slow down sensibly from the healthy expansion rate posted last year.

BELGIUM



Sources: OECD, European Commission, Belgostat, BIS, daily press

ITALY

Real Indicators*	2004	2005	2006	Latest
GDP (wda)	1.0	0.2	1.9	1.9 Q3
Industrial Production	-0.3	-0.8	2.6	-0.3 Oct**
Construction Investment	1.1	0.6	2.2	4.8 Q3
Consumer Prices - Harmonised Index***	2.3	2.2	2.2	2.6 Nov
Producer Prices***	2.7	4.0	5.6	3.6 Oct
Hourly Rates - Industry, excl. Construction***	2.9	2.7	3.3	2.5 Oct
Standardised Unemployment Rate (%)	8.0	7.7	6.8	5.6 Q3
Current Account Balance (€bn)	-13.1	-23.4	-37.9	-28.1 Q3°
as a percentage of GDP	-0.9	-1.6	-2.6	-1.8
Real Effective Exchange Rate Index§	112.5	110.8	110.4	112.6 Nov

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° Latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	4.64 Nov
Long Term Interest Rate pa (benchmark 10y)	4.26	3.56	4.05	4.45 Nov
Stock Exchange (MIBTEL) Index (% ch)*	15.1	18.9	15.6	-9.2 19/12/07**

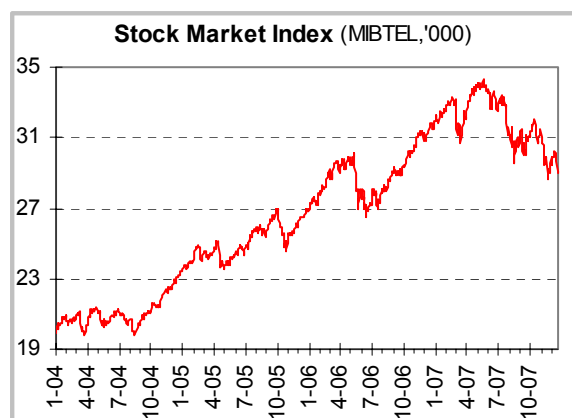
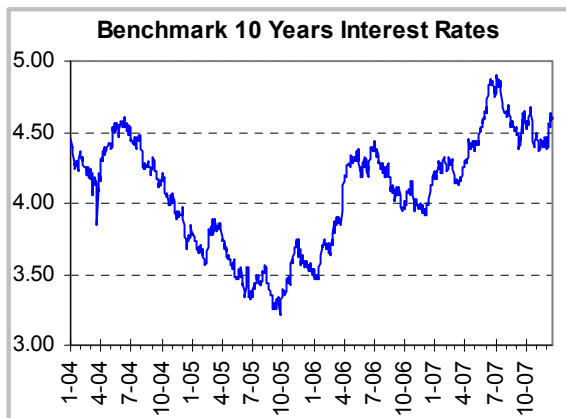
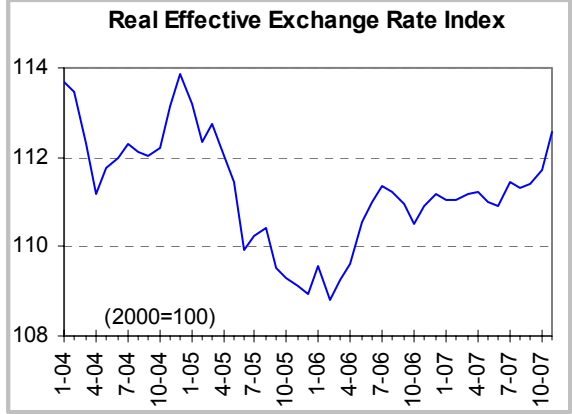
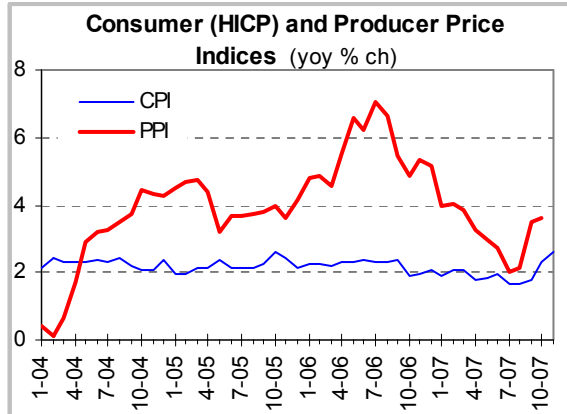
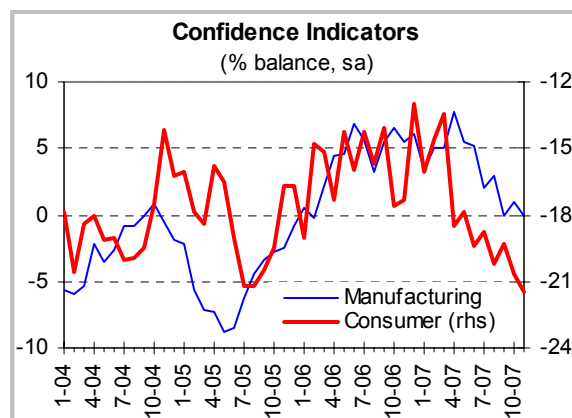
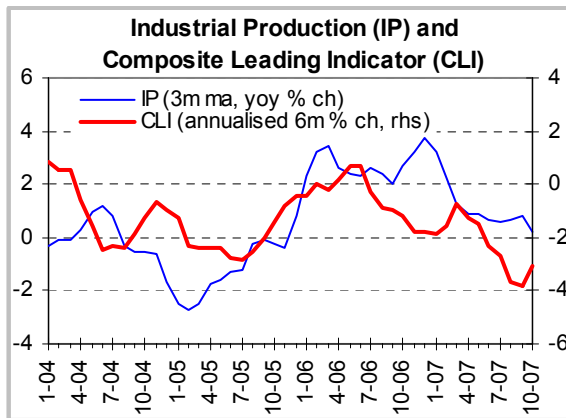
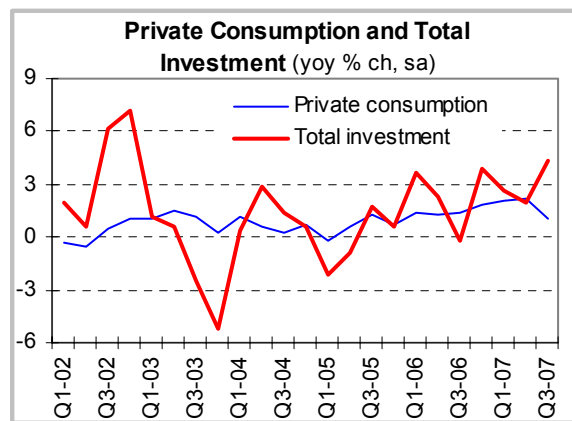
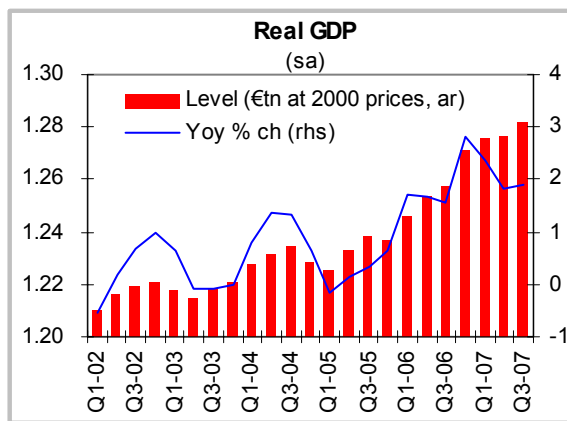
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, ISTAT, BIS, Banca d'Italia, daily press

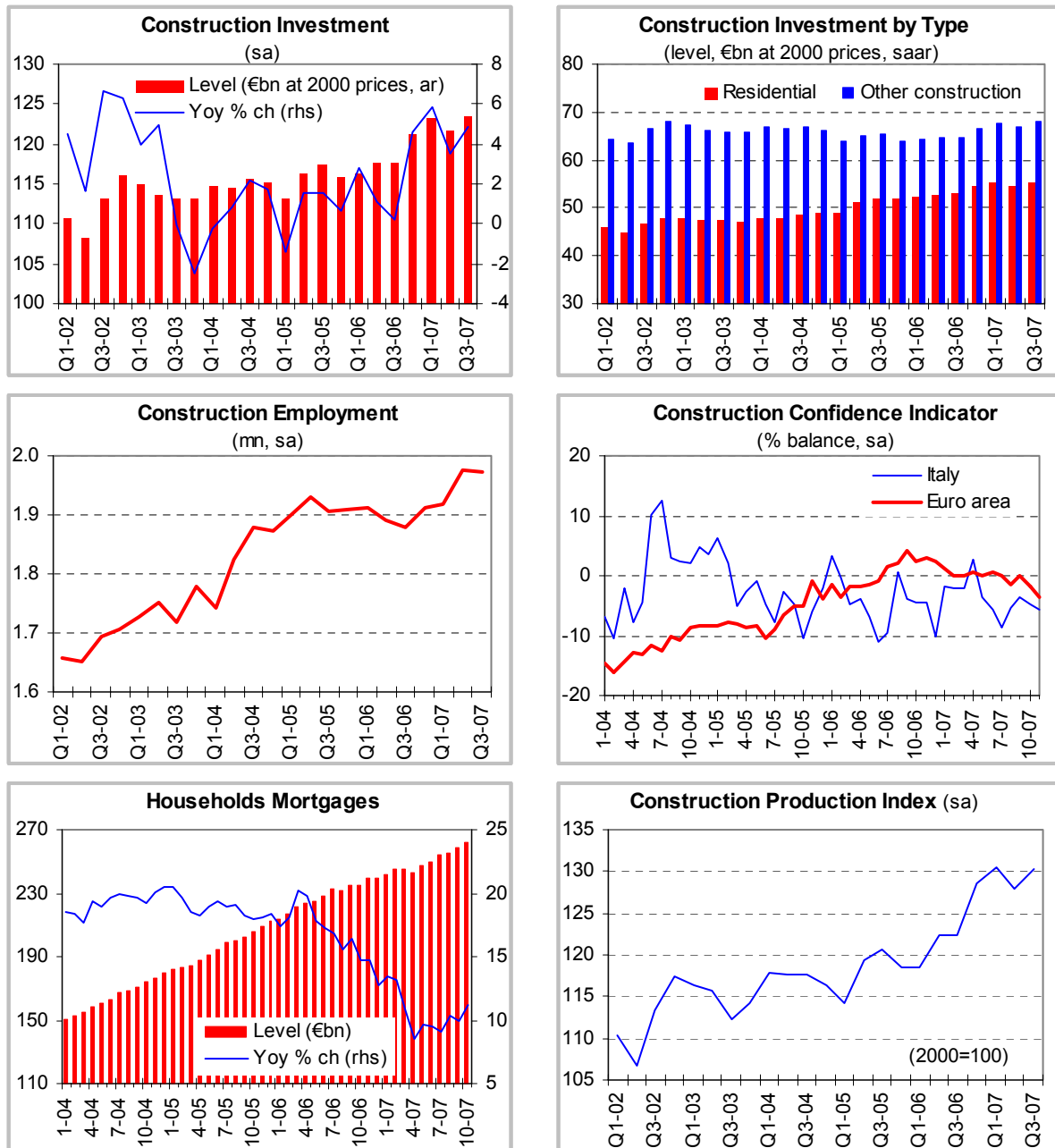
- The economy grew by 0.4% q-o-q in Q3. This followed a muted 0.1% q-o-q in Q2. Year on year, GDP edged up to 1.9% from 1.8% in Q2. The breakdown of GDP components suggests that domestic demand is the main driver while the contribution from net export has been negative for the second consecutive quarter.
- Industrial production came in much weaker than expected in October, declining 0.3% m-o-m, while the September data was revised down to -1.2%. The bulk of weakness was in capital goods output, down 1.0% m-o-m. Further weakness is expected in coming months as business confidence indicators exhibit a clear downtrend.
- The industrial confidence indicator hit its lowest level since the beginning of 2006 as the degree of uncertainty about prospects for the Italian economy is rising. Industrialists worry that strong pay rises in certain sectors, an ongoing slowdown in productivity and the rapid rise in the prices of raw materials are going to reduce their margins severely. Book of orders are also poor, notably as a result of the stronger euro that in turn affects negatively Italian competitiveness.
- Consumer price inflation has remained contained in comparison to other euro countries, though rising to 2.4% y-o-y in November. However, wage pressures, the high rate of capacity utilisation and the rapid rise of raw materials prices are clearly swelling inflation risks. With consumption remaining the main support of growth next year, the inflation-driven erosion of purchasing power is of particular concern.
- The current year has witnessed a marked reduction in government imbalances as the deficit is expected to close the year well below the 3%-to-GDP threshold. The ongoing deficit correction is to be credited mainly to an increase in government revenues by far over expectations. The ratio of public debt to GDP is also falling (105% in 2007 against 106.8% in 2006). However, government targets for the coming two years, pointing to a deficit of 2.2% of GDP in 2008 and 1.5% in 2009, may be considered optimistic in the absence of additional efforts on the expenditure side.

ITALY



Sources: OECD, ISTAT, BIS, daily press

Business Conditions in the Construction Sector



Sources: ISTAT, European Commission, Banca d'Italia

- In Q3 07 outcomes for the construction sector have been particularly buoyant (4.8% y-o-y and 1.4% q-o-q). Also, construction employment continued to increase after having started to decelerate at the end of last year. However, this latest rebound may reflect a wave of regularizations more than a strengthening of labour demand.
- Housing activity is still well on track (+4.5% y-o-y, +1.3% q-o-q), though anecdotal evidence suggests a slowdown is in the cards. As a matter of fact, there are growing signs of demand saturation particularly as far as new home sales are concerned. Also, the time needed to sell an apartment is extending and housing prices are stabilising. In addition, even the construction confidence indicator points to a softening in the months ahead.
- The private non residential component should remain in positive territory next year, although worsening macro-economic conditions could rapidly affect investment prospects.
- Despite increases of funds budgeted to infrastructures, the volume of public works that will be actually started next year remains widely uncertain with prospects mainly tilted to the downside.

SPAIN

Real Indicators*	2004	2005	2006	Latest
GDP (wda)	3.3	3.6	3.9	3.8 Q3
Industrial Production	1.5	0.8	3.8	0.1 Oct**
Construction Investment	5.4	6.1	6.0	3.9 Q3
Consumer Prices - Harmonised Index***	3.1	3.4	3.6	4.1 Nov
Producer Prices - Manufacturing***	3.4	4.9	5.3	4.7 Oct
Hourly Earnings***	4.0	3.5	4.2	3.3 Q2
Standardised Unemployment Rate (%)	10.6	9.2	8.5	8.1 Oct
Current Account Balance (€bn)	-44.2	-66.9	-84.7	-92.7 Q2°
as a percentage of GDP	-5.3	-7.4	-8.6	-9.1
Real Effective Exchange Rate Index§	113.8	114.3	115.8	120.1 Nov

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	4.64 Nov
Long Term Interest Rate pa (benchmark 10y)	4.10	3.39	3.78	4.25 Nov
Stock Exchange (MSE) Index (% ch)*	22.3	23.3	24.9	5.8 19/12/07**

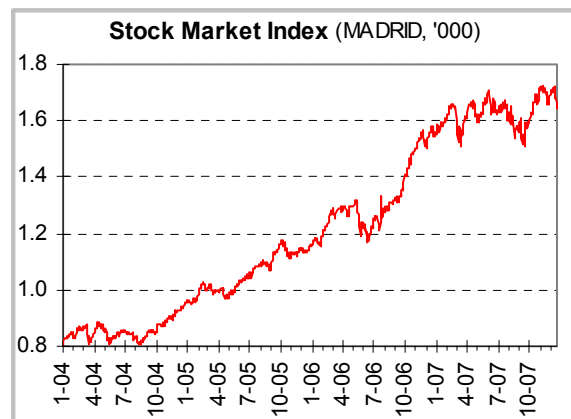
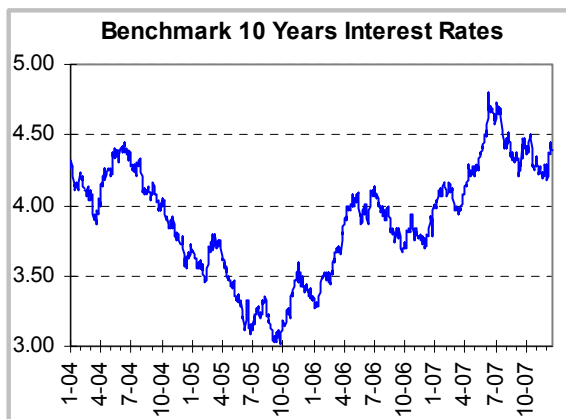
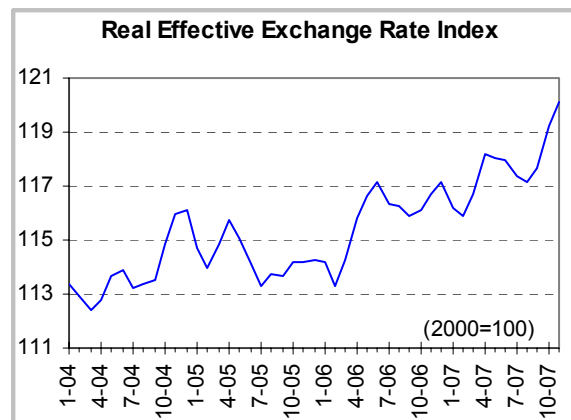
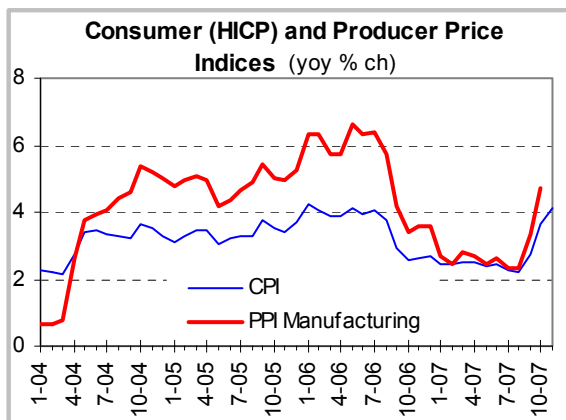
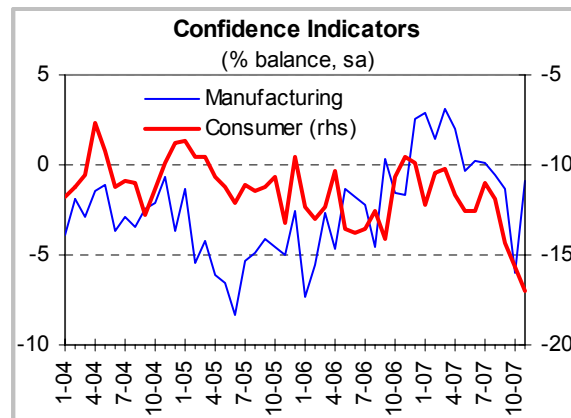
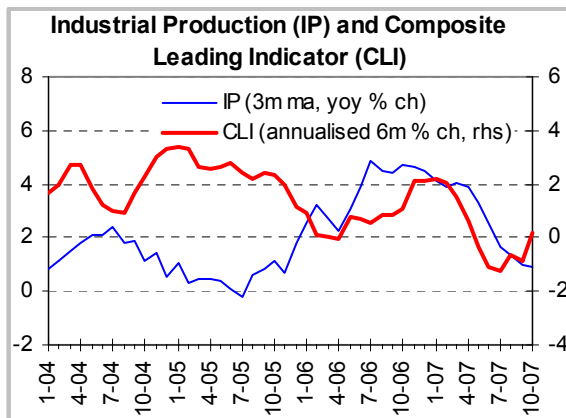
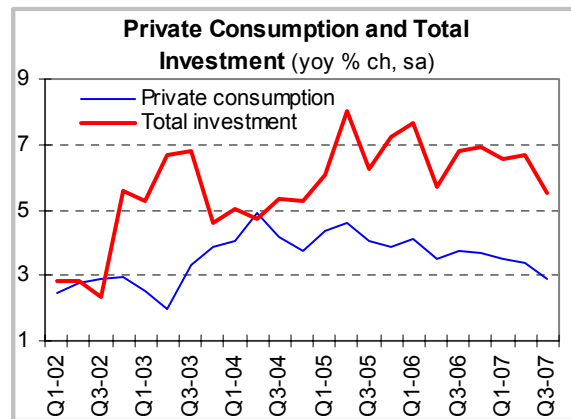
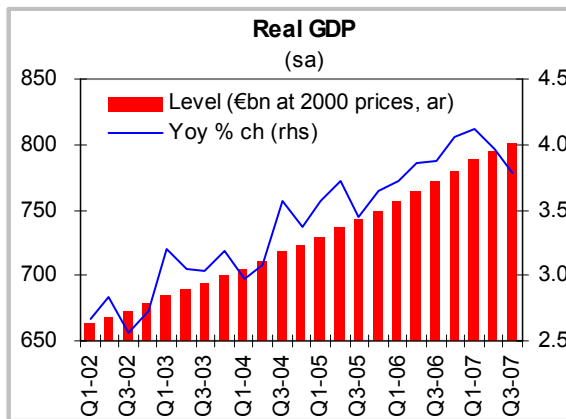
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, INE, BIS, daily press

- The Spanish economy eased somewhat in Q3 07, expanding by 0.7% q-o-q and 3.8% y-o-y (as compared to 0.9% q-o-q and 4.0% y-o-y in Q2). Domestic demand was the main engine of growth (+4.4% y-o-y, down from 4.9% y-o-y in Q2) while net exports were still a drag. Government spending has kept growing robustly (2.4% q-o-q and 5.8% y-o-y).
- Although industrial output rose by 2.6% y-o-y in October, on a cumulative basis it eased to 2.6% y-o-y in January-October, down from 3.8% in the year-earlier period, which confirms that the prolonged economic boom has begun to cool off.
- According to the purchasing managers' index, service-sector activity is continuing to slow down notably in the final quarter of 2007. Particularly, the end of the property boom is hurting those service firms that are dependent on the level of activity in the real estate sector.
- Consumption is expected to lose more closely momentum as consumer confidence deteriorated sharply in November, due to higher mortgage and consumer credit interest rates, and increasing fears that the property market is about to stall. As a matter of fact, tighter credit conditions are set to impact on heavily indebted households.
- Inflation rose to an 18-month high of 4.1%, up from 3.6% in October, 2.7% in September and notably higher than the Eurozone average (estimated at 3.1% in November by Eurostat). The breakdown of inflation data is still to be released, although the combination of rising oil and food prices in recent months coupled with falling prices a year earlier may have combined to worsen the underlying trend.
- The budget draft, presented late in October, plans an increase in state pensions and public services outlays as well as moderate income tax cuts. Healthy government finances have paved the way for an expansionary budget in 2008, which is also an election year. In fact, the budget surplus is expected to shrink from an estimated 1.8% of GDP in 2007 to 1.2% in 2008.

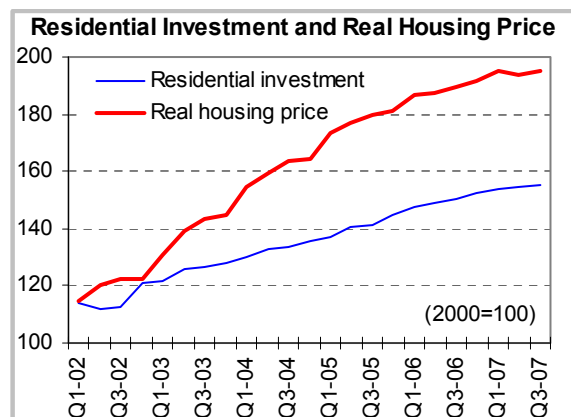
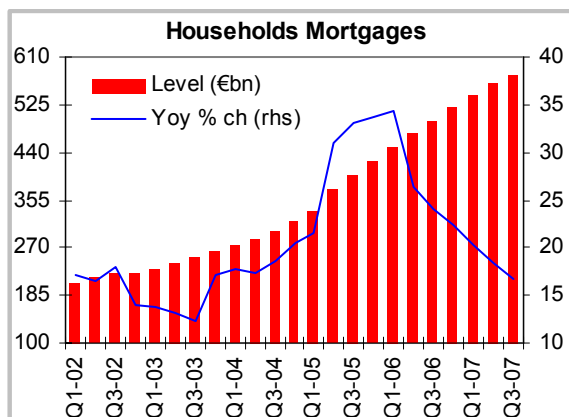
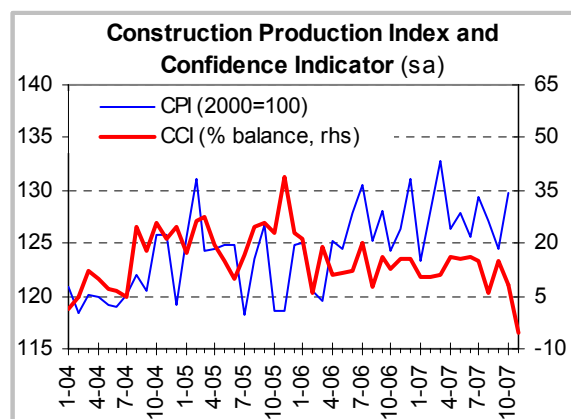
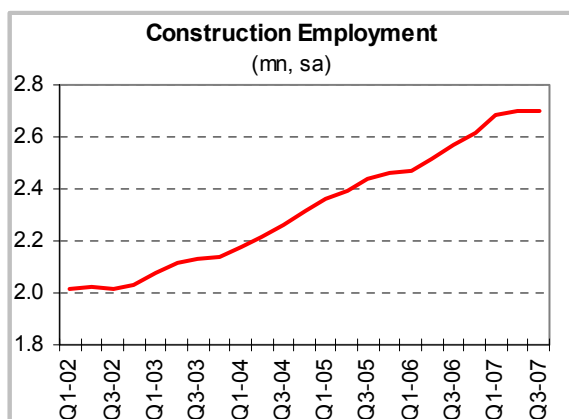
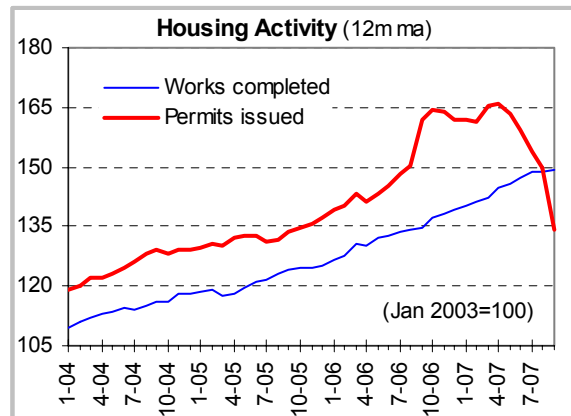
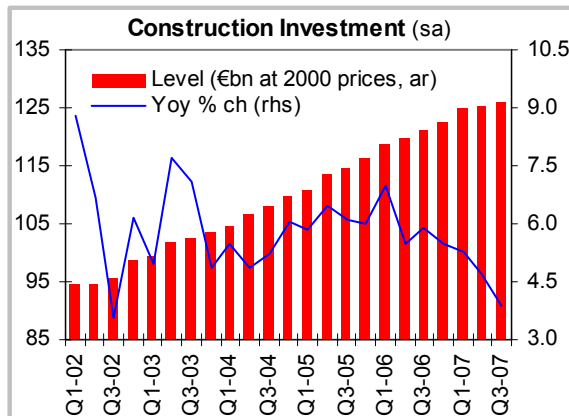
SPAIN



Sources: OECD, INE, BIS, daily press

SPAIN

Business Conditions in the Construction Sector



Sources: INE, European Commission, Banco de Espana, OECD

- Construction activity moderated in Q3 07, growing by 0.4% q-o-q and 3.8% y-o-y, down from rises of 0.5% q-o-q and 4.6% y-o-y in Q2.
- The residential sector continued to slow down (+2.9% y-o-y and +0.2 q-o-q against respectively +3.7% and +0.7% in Q2). The current turmoil in the money markets, which has pushed the 3-month Euribor above its highest rate since 1999, together with overvalued house prices are deteriorating affordability ratios and are starting to bite demand. Subscriptions of new mortgages have already slowed down dramatically and are expected to falter in the next months. Permits issued dropped by 22% y-o-y in the first nine months of the current year. However, a number of factors, including financial incentives from the government, the fact that the Spanish baby-boomers born between 1968 and 1978 are about to enter the housing market, and high immigration inflows, should make up structural supports to the residential market.
- Overall, the slowdown in the residential sector should be cushioned by public works thanks to the plan to upgrade infrastructure that was rolled out last year. As a matter of fact, the budget for 2008 contains a 9.4% increase of funds for infrastructures. The railway network will once again be receiving the most substantial allocations (25% of total).

GREECE

Real Indicators*	2004	2005	2006	Latest
GDP	4.7	3.8	4.3	3.7 Q3
Industrial Production	0.9	-0.7	0.6	-0.6 Oct**
Construction Investment***	5.0	-3.0	21.6	
Consumer Prices - Harmonised Index°	3.1	3.5	3.3	3.9 Nov
Producer Prices - Manufacturing°	3.7	5.4	6.4	6.1 Oct
Standardised Unemployment Rate (%)	10.5	9.9	8.9	7.9 Q3
Current Account Balance (€bn)°	-10.7	-14.3	-23.7	-25.9 Q2°°
as a percentage of GDP	-5.0	-6.3	-9.6	-10.2
Real Effective Exchange Rate Index§	113.3	113.2	113.8	118.0 Nov

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** National Bank of Greece estimates; ° nsa; °° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa	2.11	2.18	3.08	4.64 Nov
Long Term Interest Rate pa (benchmark 10y)	4.26	3.59	4.07	4.43 Nov
Stock Exchange (ASE) Index (% ch)*	27.5	29.4	26.8	14.1 19/12/07**

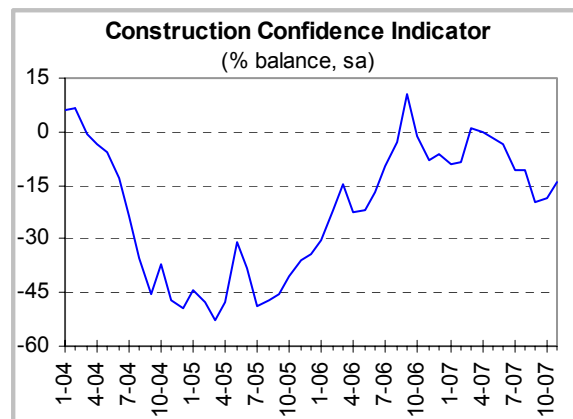
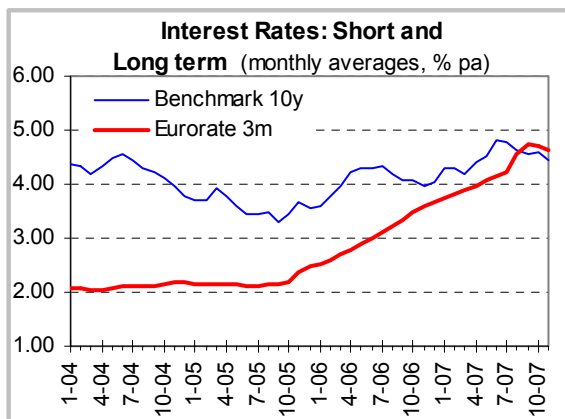
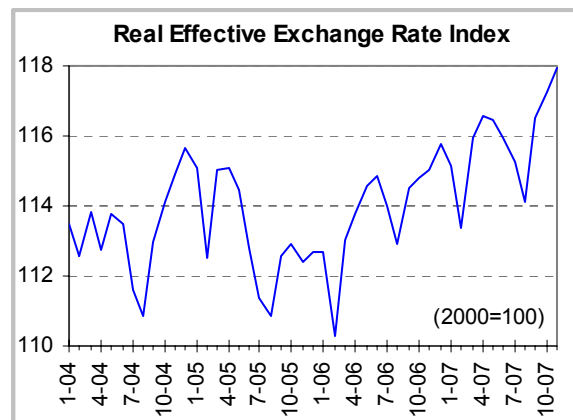
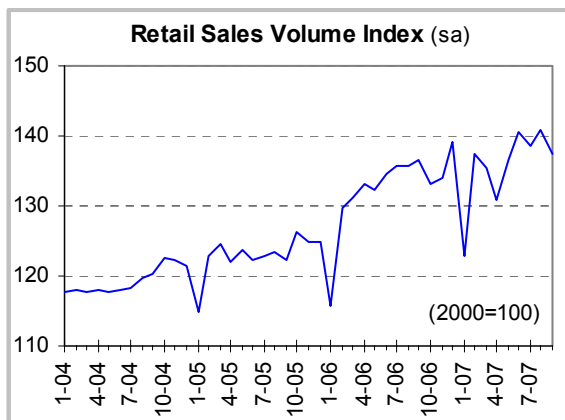
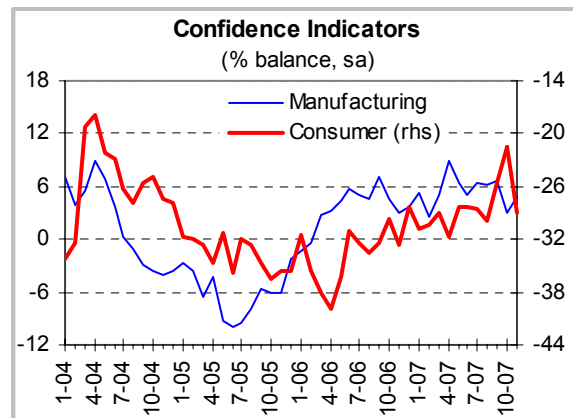
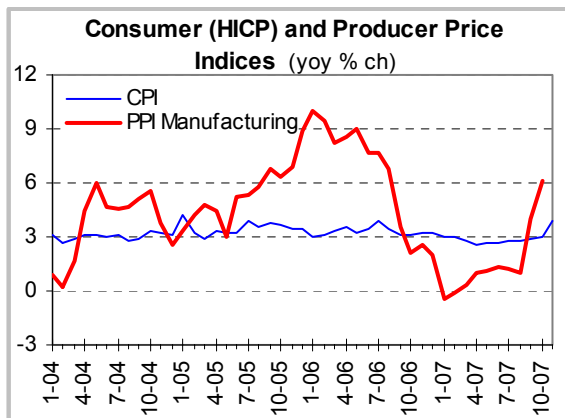
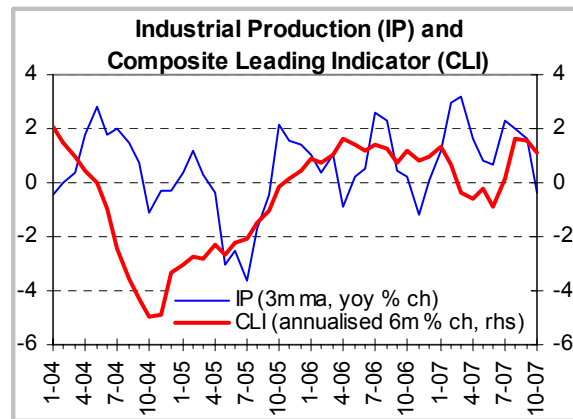
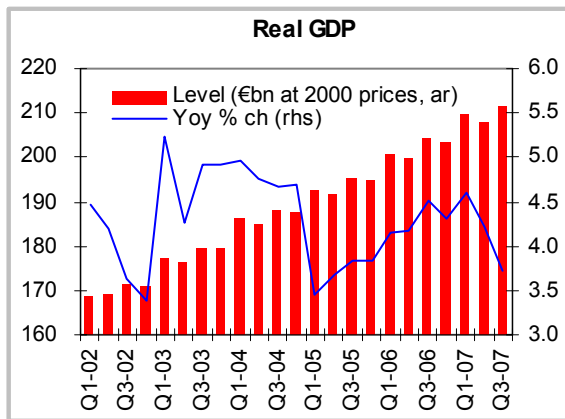
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, National Bank of Greece, BIS, daily press

- GDP growth decelerated in Q3 07 (3.6% y-o-y versus 4.1% in Q2). Industrial production fell in October by 0.1% y-o-y, down from an increase of 2.3% y-o-y in September. Elevated oil prices and the effects of the strong euro on exports are at the roots of the softening growth registered in the third quarter. Furthermore, the forest fires, that affected large parts of the country last August, may have added some dampening effect.
- The current account deficit continued to widen (exceeding 10% of GDP in the last twelve months), as exports remained weak, while imports have been sustained by healthy domestic demand.
- The harmonised inflation rate edged up in November to 3.9% y-o-y up from 3.0% y-o-y in October - i.e. its highest level since September 2005. This large increase in consumer prices was mainly driven by rising oil and food prices, and was amplified by unfavourable base effects. This is bad news either for households, that will see their purchasing power dented by higher prices, or exporters, whose international competitiveness is being hit by the strong euro.
- The government has submitted the final 2008 budget to the parliament. It targets a public deficit of 1.6% of GDP in 2008, down from 2.7% in 2007. Furthermore, it forecasts the public debt at 91.0% of GDP in 2008, down from 93.4% in 2007. The bulk of the adjustment is expected to come from the revenue side, particularly from further clampdowns on tax evasion and a wide reform of fuel's taxation.
- The real estate market is cooling off and house price growth is decelerating as compared to 2006. Despite the recent rebound in public investment, overall construction activity is set to slow down to more sustainable levels as residential construction permits are strongly declining (-10.7% y-o-y in Q3) and also construction confidence is faltering.

GREECE



Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2004	2005	2006	Latest
GDP	6.7	6.2	6.1	4.5 Q3
Gross Fixed Capital Investment	13.5	23.3	17.6	19.7 Q3
Industrial Production - Manufacturing	21.2	8.1	7.3	4.9 Oct
Consumer Prices	6.1	5.0	7.3	12.6 Nov
Producer Prices - Manufacturing	5.8	7.2	6.3	11.5 Oct
Unemployment Rate (%)	12.7	11.5	9.6	6.7 Oct
Current Account Balance (US\$bn)	-1.7	-3.3	-5.0	-6.7 Q2°
as a percentage of GDP	-6.7	-12.0	-15.7	-19.1
Real Effective Exchange Rate Index [§]	120.2	121.1	126.5	140.9 Nov

Notes:

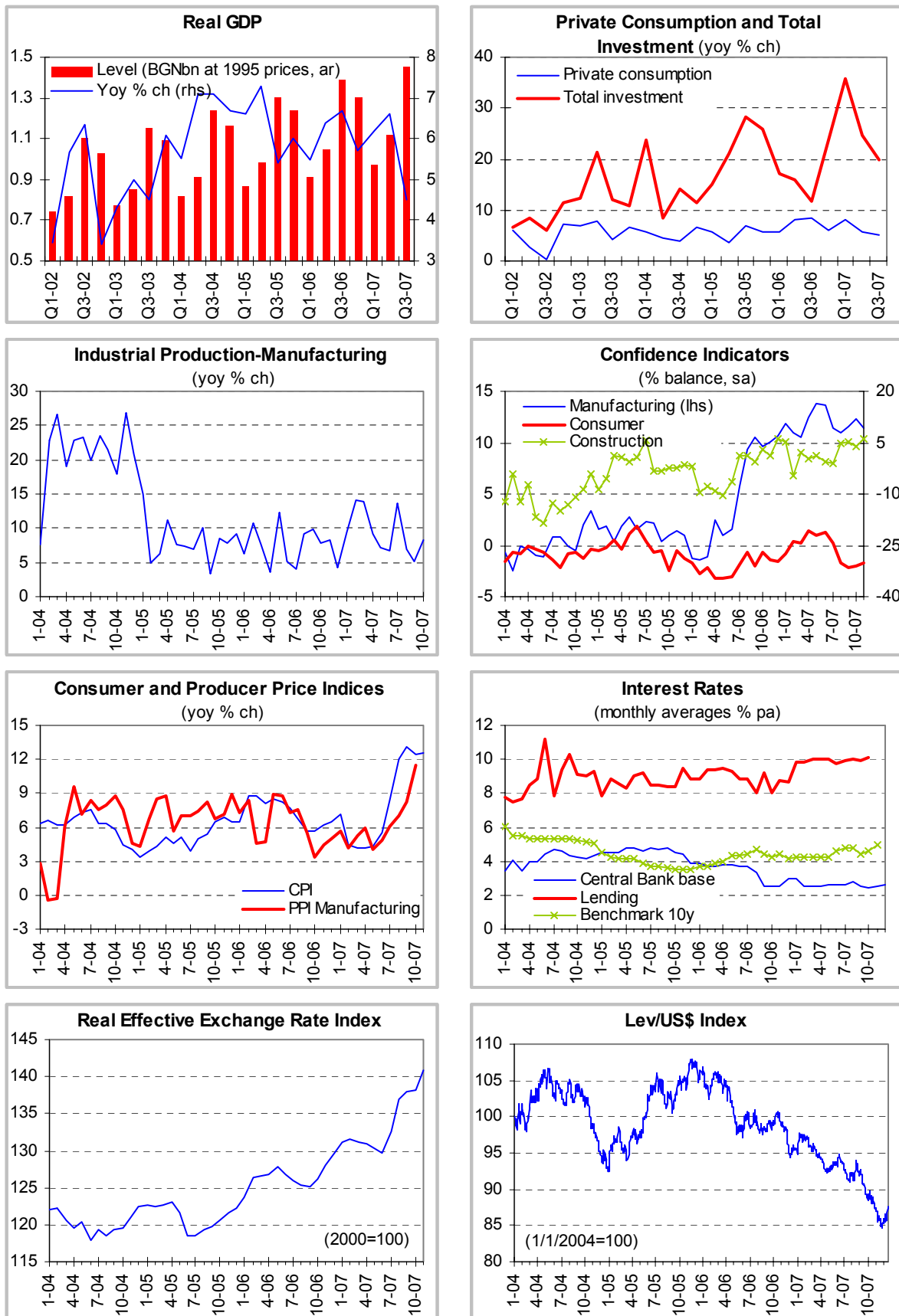
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (interbank)	2.0	2.1	2.8	4.3 Oct
Government Bond Yields (<1 year) pa	2.7	2.3	2.6	4.0 Oct
Long Term Interest Rate pa (benchmark 10y)	5.4	3.9	4.2	4.9 Nov

Sources: National Statistics Institute, BIS, National Bank of Bulgaria

- GDP growth came in at only 4.5% y-o-y in Q3, as a result of drought and a widening gap between exports and imports. Given strong performances in the first two quarters, GDP in the first nine months was still 6.2% y-o-y higher than a year earlier.
- The November's business climate indicator points to a slowdown in the last part of the year as the negative impact of the drought will persist and the tourism season is reportedly weaker than in 2006.
- The consumer price index rose by 1.6% m-o-m in November following a 0.6% hike in October. On a y-o-y basis, it picked up to 12.6%. While one-off factors such as the drought and volatile food and fuel prices are responsible for much of the surge in consumer prices in H2, also the overheated economy has clearly added pressure.
- The Bulgarian National Bank estimated the current account (CA) deficit in 2007 near 20% of GDP. The boom in domestic demand coupled with sharply higher prices for key imported commodities caused the widening in the external trade gap. However, foreign direct investment inflows in the first ten months of 2007 were equivalent to 102.6% of the CA deficit.
- At the end of October the government approved the 2008 budget, which targets an overall surplus equal to 3% of GDP. In this regard, running a big fiscal surplus should help to stabilise the lev and curb inflation.
- The economic juncture in construction remained favourable, even though the composite indicator of the sector's climate fell slightly in November as compared to the previous month. 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.

BULGARIA



Sources: National Statistics Institute, National Bank of Bulgaria, BIS, daily press

EGYPT

Real Indicators*	2004	2005	2006	Latest
GDP	4.5**	5.6	6.9	7.3 Q2
Construction Production (Gross Value Added)	4.2**	10.3	10.7	17.0 Q2
Consumer Prices	11.3	4.9	7.6	6.1 Nov
Wholesale Prices	17.1	5.3	7.0	5.5 Oct
Unemployment Rate (%)**	10.3	11.2	10.0	8.9 Q2
Current Account Balance (US\$bn)	3.2	2.0	2.7	2.7 Q2°
as a percentage of GDP	3.9	2.1	2.4	2.1
Real Effective Exchange Rate Index [§]	66.9	72.7	75.8	80.7 Oct

Notes:

* yoy % ch, nsa, unless otherwise indicated; ** fiscal year ending 30th June (i.e. figures for the year 2004 cover the period 1/7/2003 to 30/6/2004); ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Discount Rate (end of period)	10.0	10.0	9.0	9.0 Nov
Short Term Interest Rate pa (91 days T-Bill)	9.7	9.5	8.8	6.8 Nov
Stock Exchange (HERMES) Index (% ch)*	116.2	169.4	10.7**	46.8 19/12/07**

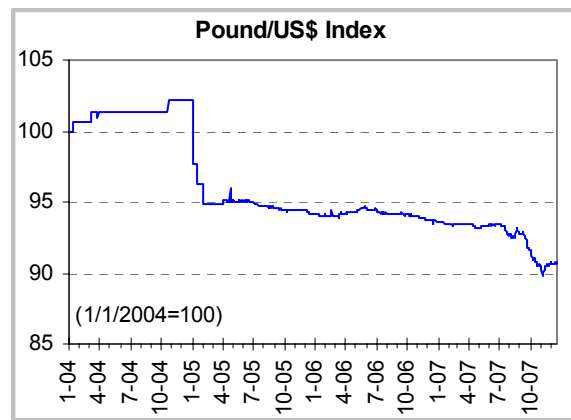
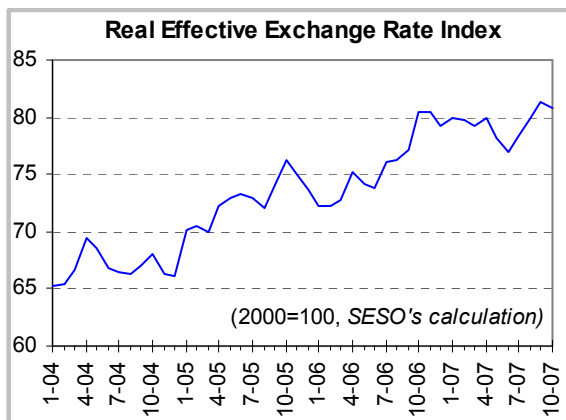
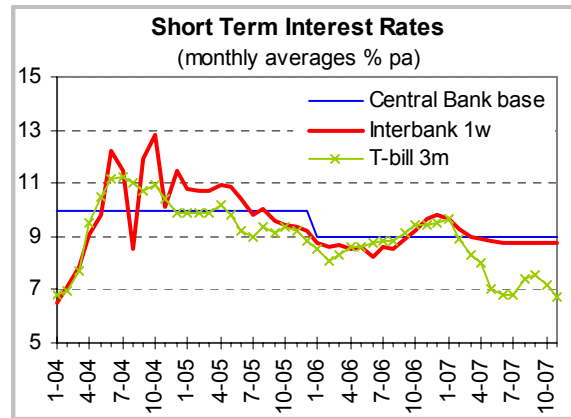
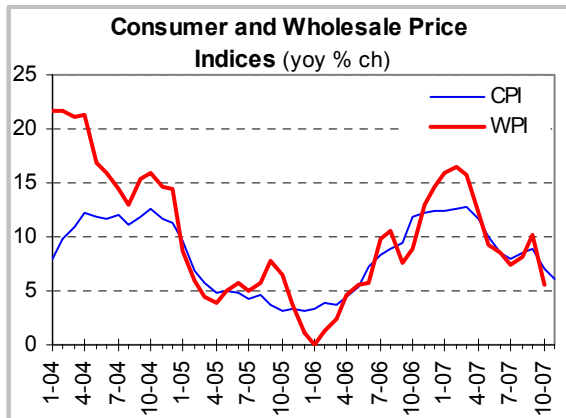
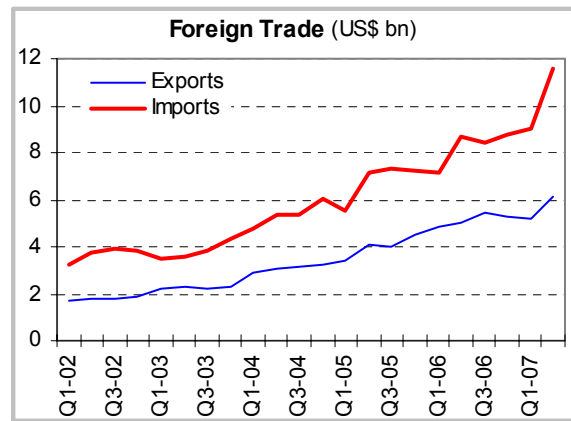
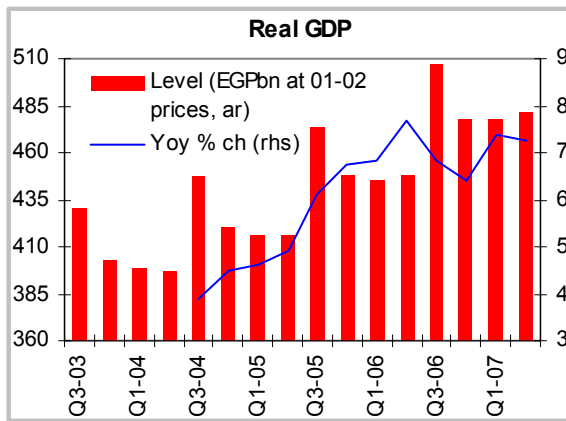
Notes:

* Average over year; CSE Index for 2004-2005, new series starting from 01/01/2006: HERMES Index; ** yoy % ch at year-end; ** % change on 31/12/06

Sources: Central Bank of Egypt, Central Agency for Public Mobilization And Statistics, SESO's calculation, daily press

- The Egyptian economy has kept showing a healthy performance, growing by 7.4% y-o-y in Q1 and 7.3% in Q2 07. Continued growth has stemmed from the Suez Canal, a rebound in the tourism sector, and increased investments and export receipts.
- Strong domestic demand has been fuelling the trade deficit. However, the external position remains solid thanks to the huge inflows of foreign direct investment (FDI). As a matter of fact, according to the United Nations Conference on Trade and Development, Egypt runs first among African countries, and second among its Arab peers, in attracting foreign capital. FDI made impressive gains in FY 2006/07, nearly doubling to \$11.1 bn and accounting for a 8.6% share of estimated GDP.
- The healthy external position and the country's growing attractiveness to foreign investors is bolstering the Egyptian pound which retains an appreciation bias *vis-à-vis* the dollar.
- According to recent data, the consumer price index fell in November by 0.2% m-o-m, down from +1% in October. This decrease of the index is to be related to food and non-alcoholic beverages which fell by 0.6% m-o-m. Only housing and utilities' prices increased between October and November.
- The construction sector is on an upswing, benefiting from massive capital inflows originating from the oil-rich Gulf States. The Government has reaffirmed in the budget its commitment to improve infrastructure and low income households housing construction.

EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2004	2005	2006	Latest
GDP	5.2	2.4	8.0	1.7 Q2
Construction Production (Gross Value Added)	3.5	7.3	8.6	12.0 Q2
Industrial Production	3.0	2.6	3.7	4.0 Q3
Consumer Prices	1.5	1.0	3.3	1.4 Nov
Producer Prices - Manufacturing	5.0	9.1	5.9	7.7 Oct
Urban Unemployment Rate (%)	18.4	18.4	15.5	15.9 Q3
Current Account Balance (US\$bn)	1.0	1.1	1.9	0.9 Q2°
as a percentage of GDP	1.7	1.9	2.8	1.3
Real Effective Exchange Rate Index [§]	93.5	91.8	92.9	92.5 Aug

Notes:

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa	2.4	2.8	2.6	3.9 Nov
Stock Exchange (MASI) Index (% ch)*	25.7	10.9	57.2	33.4 19/12/07*

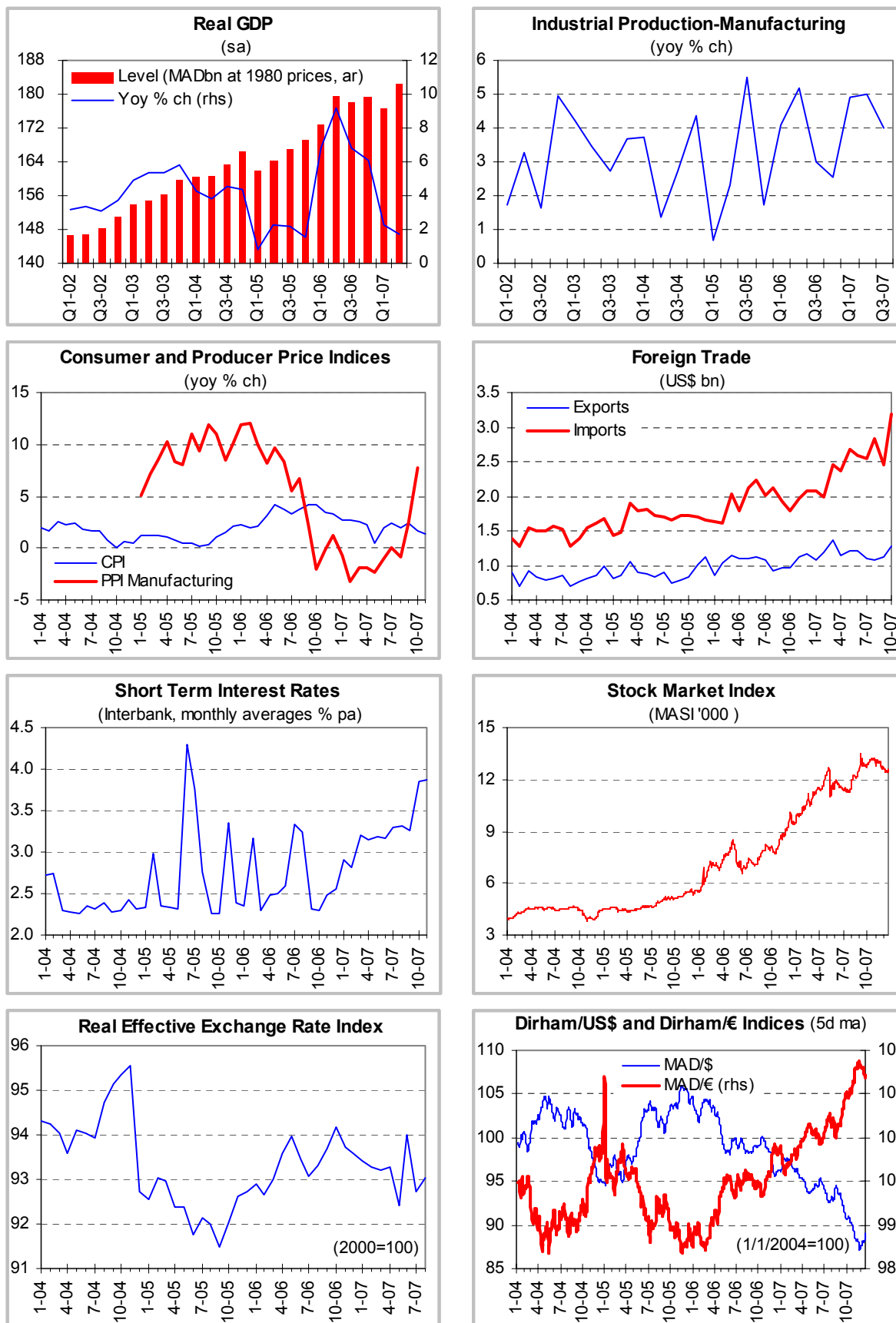
Notes:

* % change on 31/12/06

Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, IMF, daily press

- GDP growth decelerated in Q2 07. In fact, this has been determined by a very poor agricultural performance (agriculture output actually fell by 20.9% y-o-y), while the non agriculture sector has been growing healthily (+3% q-o-q).
- The construction sector keeps on showing a favourable juncture (the sectoral gross value added increased by 12% y-o-y in Q2) driven by hefty households demand for dwellings and substantial government programmes in social housing, agriculture, tourist and public infrastructures.
- The strength of domestic demand is fuelling imports. Robust import growth has swollen the merchandise trade deficit by 33.5% y-o-y in the first ten months of 2007.
- The consumer price index grew by 1.4% y-o-y while decreasing 0.6% m-o-m in November. Inflation continues to be extremely moderate, despite higher import costs of energy, also thanks to the trade liberalisation process and the government decision not to pass on to the consumers higher costs of international foodstuffs.
- The 2008 budget has been recently approved. It plans to increase public spending by 15.8% in 2008. Half of government spending will be addressed to social development schemes (i.e., schools, housing for the poor, etc). Corporate tax rates (currently set at 35.0%) are set to be dropped in 2008, following the government efforts to encourage private investment.

MOROCCO



Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, Office des Change, IMF, daily press

TURKEY

Real Indicators*	2004	2005	2006	Latest
GDP**	8.9	7.4	6.1	1.5 Q3
Industrial Production**	9.8	5.4	5.9	2.7 Sep***
Construction Investment	3.7	24.5	19.8	5.8 Q3
Consumer Prices****	8.6	8.2	9.6	8.4 Nov
Producer Prices - Manufacturing****	13.1	7.6	9.3	4.3 Nov
Unemployment Rate (%)	10.3	10.2	9.9	9.3 Sep
Current Account Balance (US\$bn)**	-15.5	-22.6	-32.9	-34.4 Q3°
as a percentage of GDP	-5.1	-5.5	-8.2	-7.5
Real Effective Exchange Rate Index§	98.0	108.1	107.3	123.6 Nov

Notes:

* yoy % ch, nsa, unless otherwise indicated; ** sa; *** mom % ch ; **** revised series of the National Statistics Institute; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	21.8	14.8	15.6	16.0 Dec
Stock Exchange (IMBK) Index (% ch)*	61.8	47.9	35.5	37.7 19/12/07**

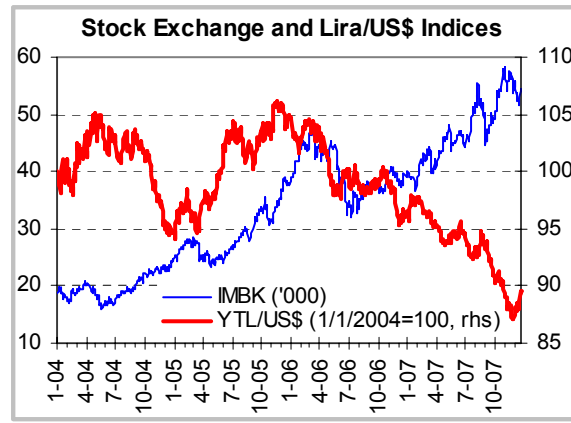
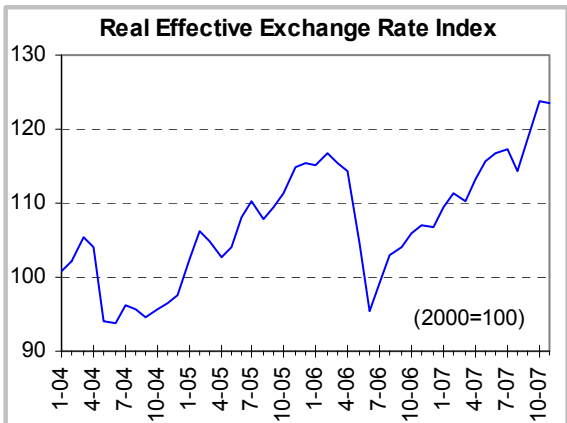
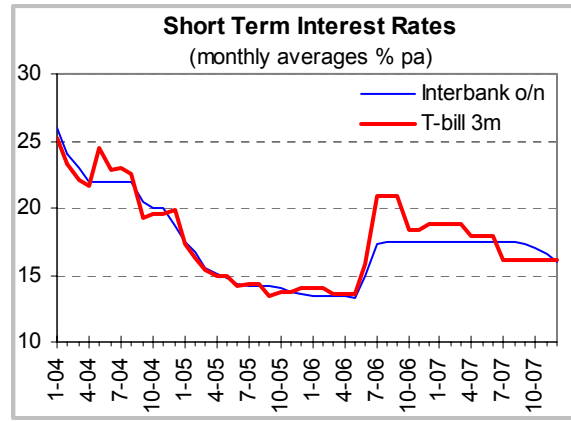
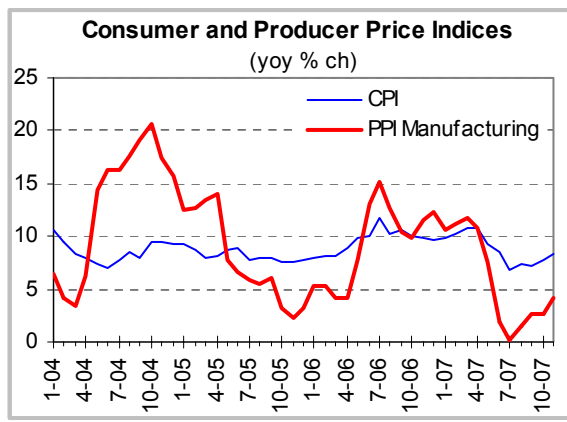
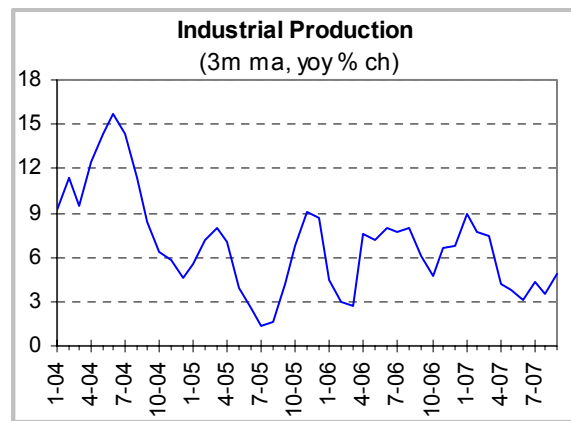
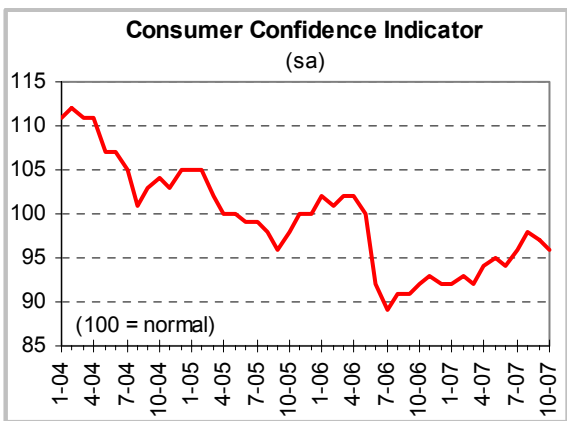
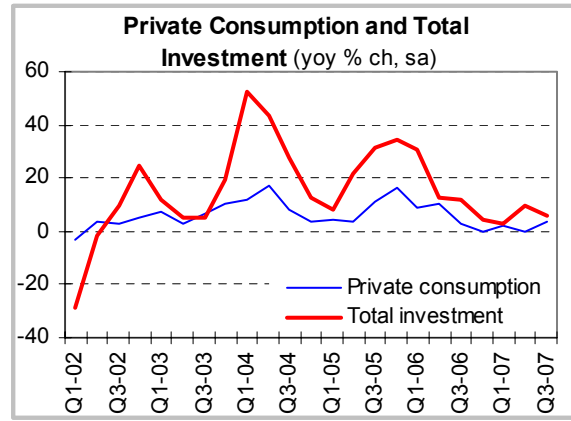
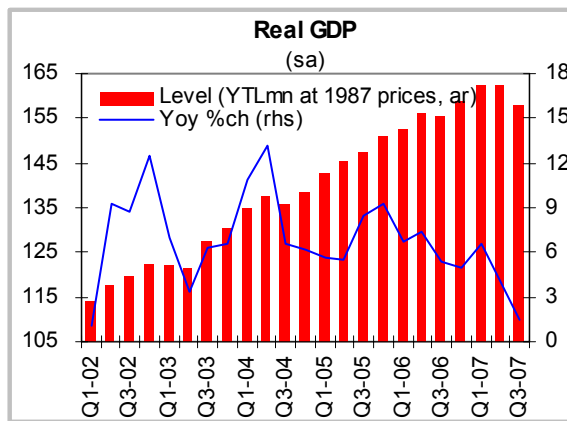
Notes:

* Average over year; ** % change on 31/12/06

Sources: OECD, BIS, Central Bank of Turkey, daily press

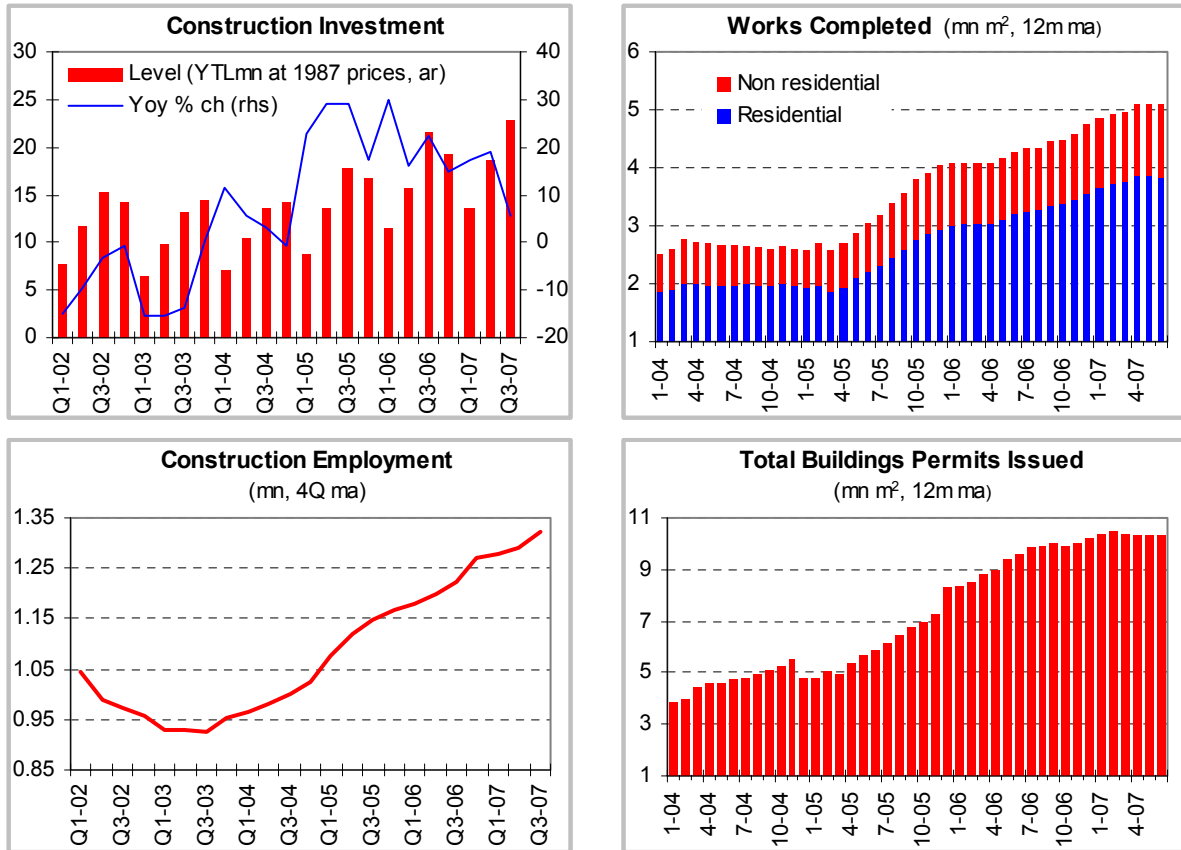
- In Q3 07 GDP growth slowed down to 1.5% y-o-y (from 4.1% in Q2), the slowest outcome since the 2001 financial crisis. Net exports were undermined by high international commodity prices, which are also reflected in real import growth (+16.8% y-o-y against +9.2% in Q2). As a matter of fact, strong Turkish *lira* made consumer and intermediate goods imports more competitive at the same time that import prices on energy and food soared.
- The business confidence indicator reached the lowest since the start of 2007. In fact, manufacturers and exporters are increasingly concerned about the Central Bank policy that is extremely cautious in cutting interest rates further.
- The current account (CA) imbalance remains the country's main vulnerability. The country's CA deficit has reached 8% of GDP last year, one of the highest in the emerging world and in October the trade deficit widened by almost one-third as compared to a year earlier. The risk is exacerbated by the current global financial crisis, as Turkey is hugely dependent upon capital inflows to finance its gap. So far, foreign investment has continued to pour into the country, also attracted by the high Turkish interest rates. As such, demand for the *lira* is high, keeping the currency strong.
- Consumer prices rose almost 2% m-o-m in November, pushing the annual inflation rate to 8.4%, up from 7.7% one month earlier. This is due in large part to energy, which fed a strong increase in transport prices in November. At the beginning of November, the special consumption tax (SCT) charged on fuel and liquefied petroleum gas was increased by 10-17%. At the same time, the SCT on cigarettes went up by 7%.
- Owing to the strength of the lira and a decelerating domestic demand, the Central Bank will likely be more aggressive in cutting interest rates in the months ahead. This would particularly be the case given that the bank views the recent rise of inflation as temporary.

TURKEY



Sources: OECD, BIS, Central Bank of Turkey, daily press

Business Conditions in the Construction Sector



Sources: OECD, SIS (State Institute of Statistics)

- Construction investment dramatically decelerated in Q3 07 (+5.8% y-o-y, compared +19.2% in Q2), due to the sluggish performance of both the public and private components which grew respectively by 5.4 and 5.9% y-o-y (39.9% and 12% y-o-y respectively in the previous quarter).
- As far as the private sector is concerned, data on building permits show that activity is set to remain relatively sluggish in the next months. As a matter of fact, permits issued contracted by 3.1% y-o-y in the first nine months of this year.
- Infrastructure projects are flourishing. Significant investment spending is being destined to overhaul and develop transport networks (airports, ports, railways, etc.). The government has opened up to private investors a number of rail projects. The major ones underway are: the 250km Istanbul rail system, which is set for completion by 2010; the intercity links, such as the Ankara-Istanbul route, the Ankara-Izmir highway and the railway project linking Georgia, Azerbaijan and Turkey which are all expected to be completed by 2010.

THAILAND

Real Indicators*	2004	2005	2006	Latest
GDP	6.3	4.6	5.1	4.9 Q3
Industrial Production – Manufacturing	11.7	9.0	7.4	2.3 Oct**
Construction Investment	9.3	5.9	4.6	1.5 Q3
Consumer Prices***	2.8	4.5	4.6	3.0 Nov
Producer Prices***	6.7	9.1	7.1	7.9 Nov
Unemployment Rate (%)***	2.1	1.9	1.5	1.4 Oct
Current Account Balance (US\$bn)	2.8	-7.9	2.2	11.8 Q3°
as a percentage of GDP	1.7	-4.4	1.0	5.1
Real Effective Exchange Rate Index [§]	95.5	97.0	105.3	109.6 Nov

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	1.2	2.6	4.6	3.3 Nov
Stock Exchange Index (Bangkok) (% change)*	37.5	4.1	4.2	18.4 19/12/07**

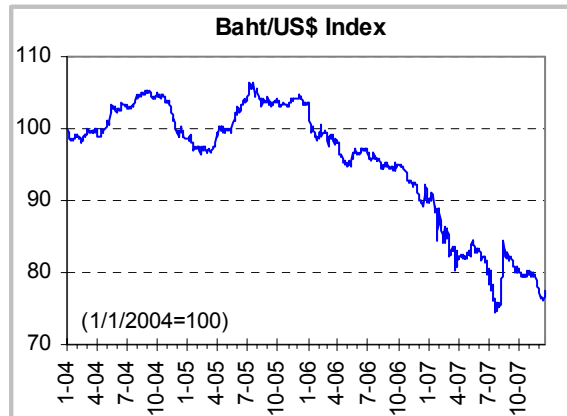
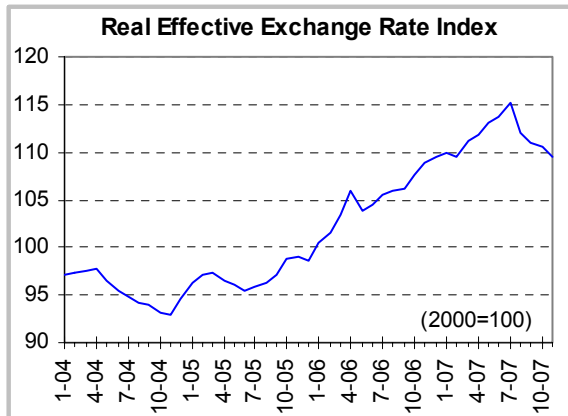
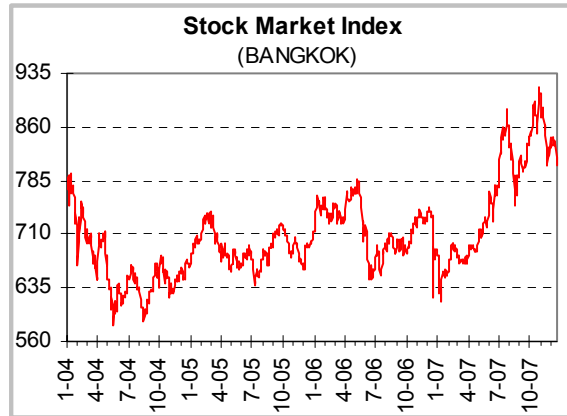
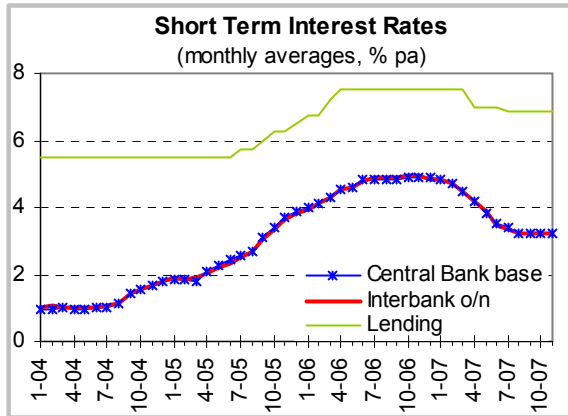
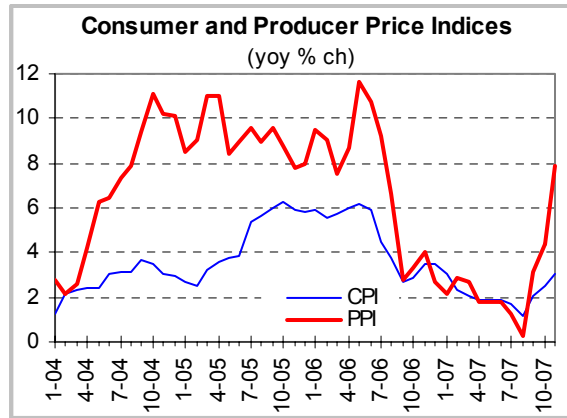
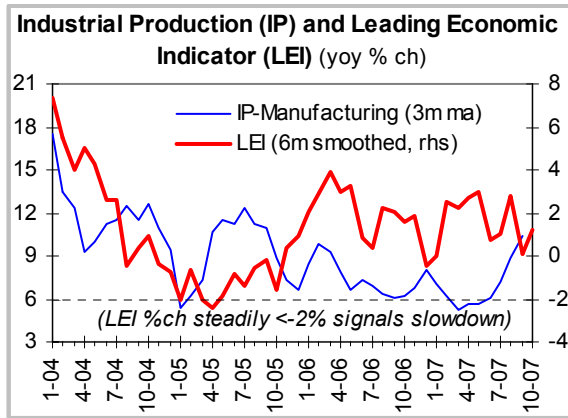
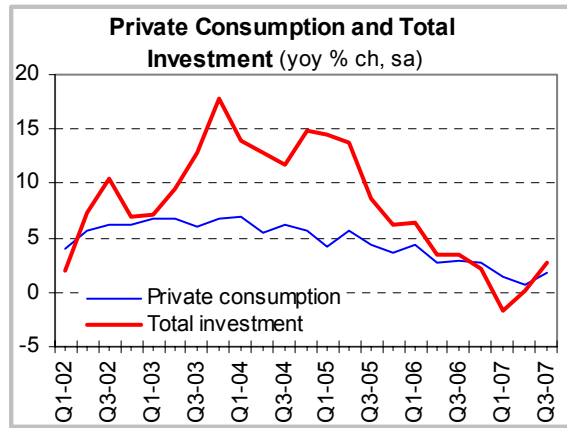
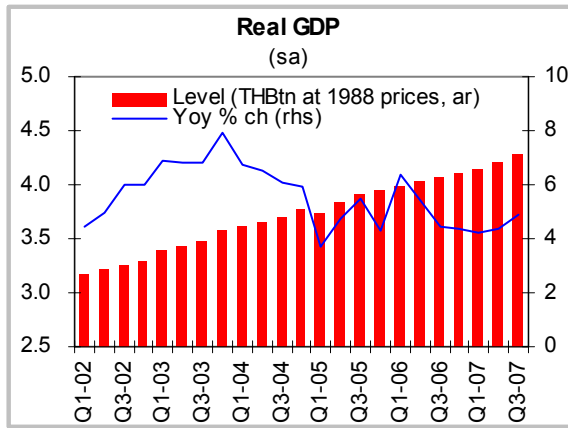
Notes:

* Average over year; ** % change on 31/12/06

Sources: Bank of Thailand, National Economic and Social Development Board, BIS, daily press

- After a slowdown in the first half of 2007, the economy has regained momentum in Q3, with GDP growth at about 4.9% y-o-y. Impetus was injected by a long-awaited recovery in domestic demand. Private consumption rose by 1.9% y-o-y and by 1.7% q-o-q. Private investment also emerged from the doldrums, recording the first positive y-o-y growth (1.1%) since the fourth quarter of 2006.
- Real exports slowed in the third quarter (3.5% y-o-y against 7.6% in Q2) on the back of the recent global financial turmoil, which threatens to undermine demand in lead US markets. Imports accelerated marginally, expanding 2.4% y-o-y. However, the current account surplus remained robust as it rose to 6.2% as a percentage of GDP - up from 3.5% in Q2.
- After remaining broadly in check for most of the year, inflation rose sharply in November, hitting its highest level since January. The consumer price index rose 3.0% in annual terms, up from 2.5% posted in October. The acceleration in inflation was in line with the recent spike in oil prices, with domestic energy prices surging by 23.3% y-o-y in October.
- In its latest December meeting, the Monetary Policy Committee decided to keep the 1-day repurchase rate at 3.25%, after having reduced it for four times in a row since January. According to the monetary authorities' view, although the growth momentum has improved of late, risks to growth still stem from the global environment. In addition, core inflation is expected to remain within the target range for the next few quarters.
- Thailand's military-appointed interim government continues to run an expansionary fiscal policy. In the first eleven months of the 2006/07 fiscal year (1 October - 30 September), the deficit reached US\$1.3 bn, according to data published by the Ministry of Finance. During the year-earlier period, the government ran a surplus of US\$0.9 bn.

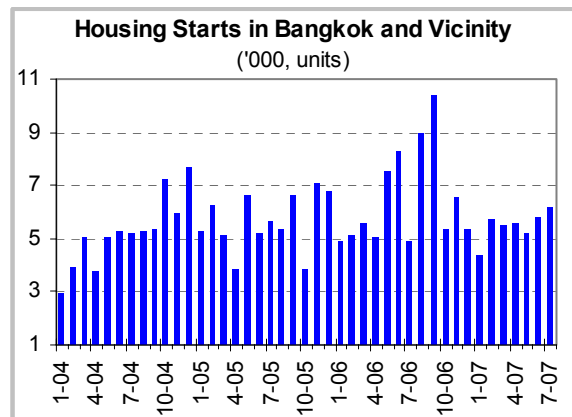
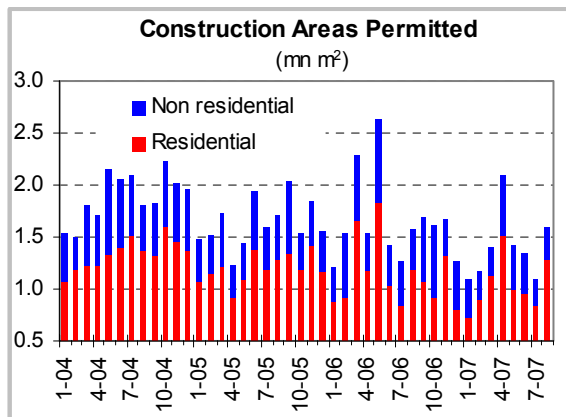
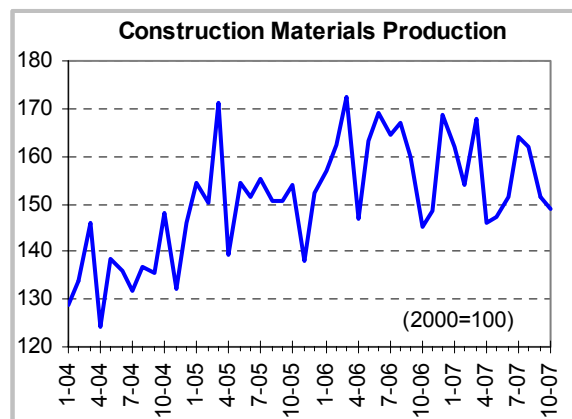
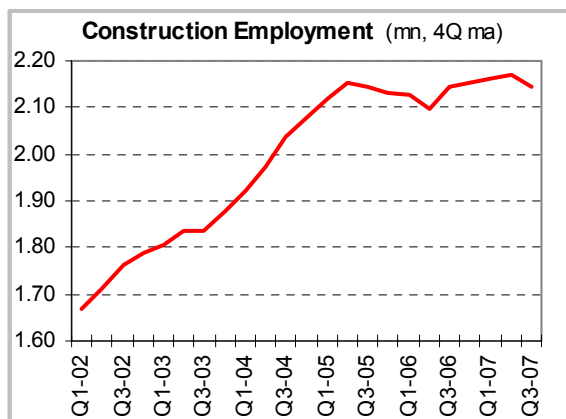
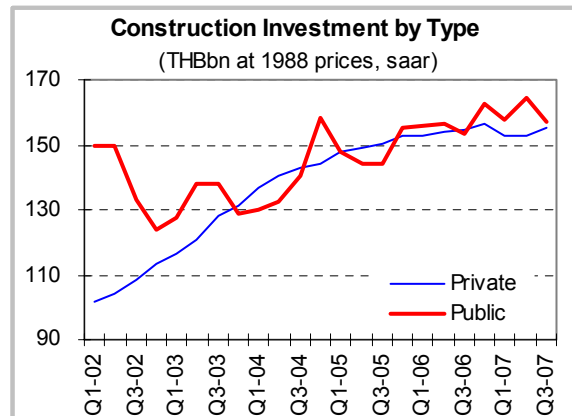
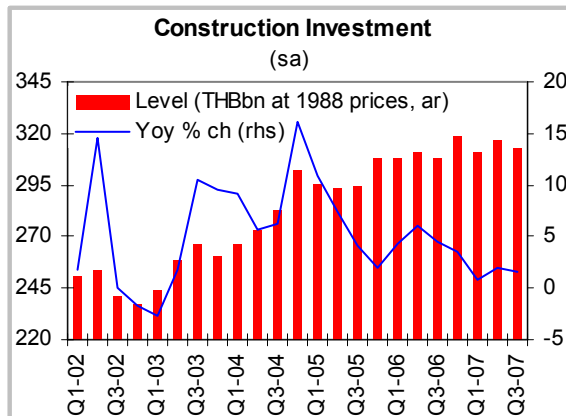
THAILAND



Sources: NESDB, Bank of Thailand, daily press, BIS

THAILAND

Business Conditions in the Construction Sector



Source: Bank of Thailand

- The ongoing political turmoil has influenced private construction investment hitting investors' confidence and leading to a more cautious stance. Housing prices have been slowing down since Q2, in line with the moderation of residential investment (0.5% y-o-y in Q3 and -0.5% y-o-y in the first three quarters of 2007).
- The interim government has implemented plans for some large-scale "mega" projects in order to stimulate the economy. In late October the cabinet approved two such projects totalling over US\$1 bn investment. The government has also moved ahead through plans for the development of mass transit systems in Bangkok. In early October it decided to finance the US\$1.53 bn "purple line". However, public construction was particularly disappointing in Q3 (-4.5% q-o-q and 2.5% y-o-y, after having grown by 5% y-o-y and 4.2% q-o-q in Q2). Difficulties stem mainly from the funding process of new infrastructures which raises the risk of a "stop and go" dynamics in the works implementation.

INDIA

Real Indicators*	2004	2005	2006	Latest
GDP**	7.2	8.7	9.6	8.9 Q3
Industrial Production - Manufacturing	8.9	9.0	11.5	11.8 Oct
Construction Production (Gross Value Added)	13.1	13.9	11.9	11.1 Q3
Consumer Prices	3.8	4.2	6.2	5.5 Oct
Wholesale Prices	6.6	4.7	4.8	3.1 Nov
Current Account Balance (US\$bn)**	0.8	-7.8	-10.4	-9.7 Q2°
as a percentage of GDP	0.1	-1.1	-1.3	-1.1
Real Effective Exchange Rate Index [§]	99.8	103.8	102.1	109.6 Nov

Notes:

* yoy % ch, nsa, unless otherwise indicated; national account data are shown on a solar year basis after transforming the original fiscal year data; ** sa; ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (91-day T-bills)	4.7	5.4	6.4	7.5 Nov
Prime Lending Rate	10.6	10.5	10.9	13.0 Nov
Stock Exchange Index (Mumbai) (% ch)*	44.2	32.7	54.7	38.5 19/12/07**

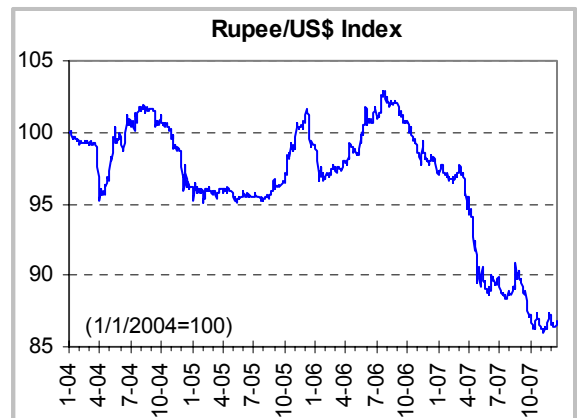
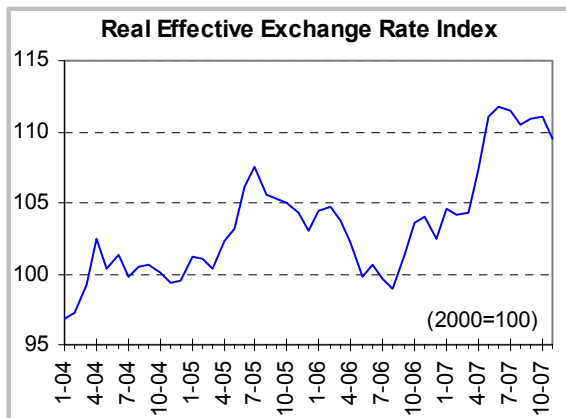
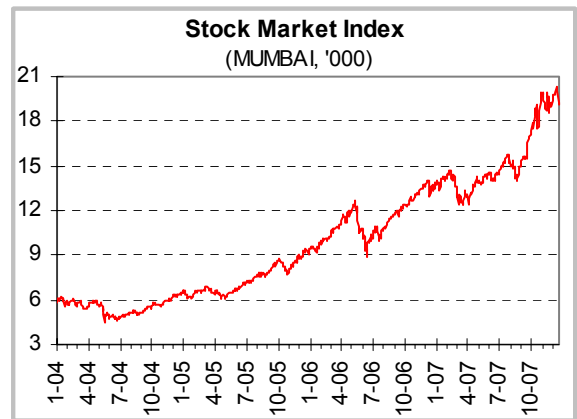
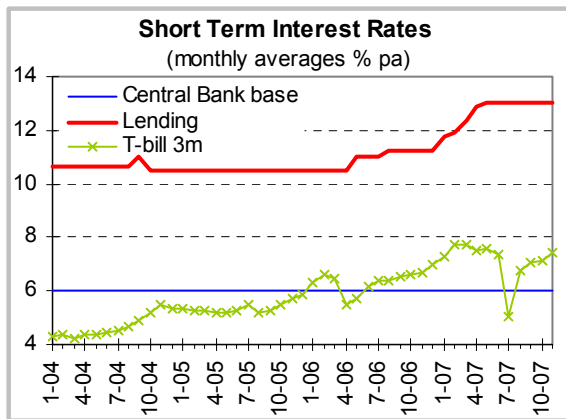
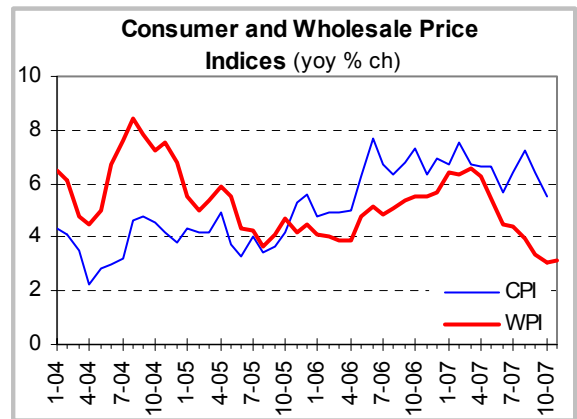
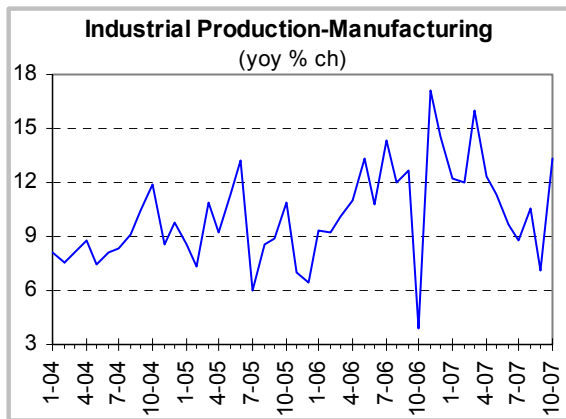
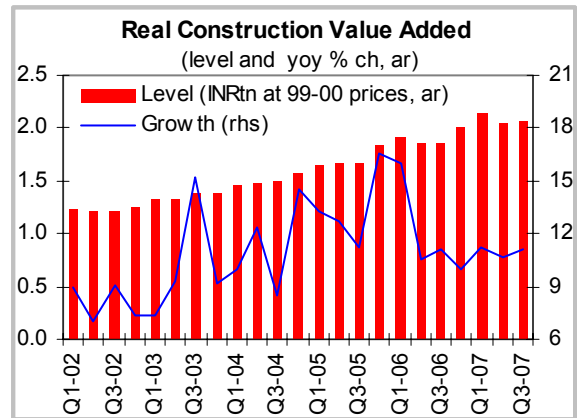
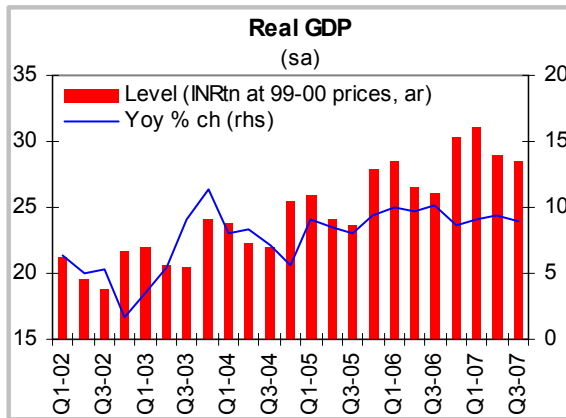
Notes:

* Average over year; ** % change on 31/12/06

Sources: Reserve Bank of India, BIS, Office of Economic Advisor, Labour Bureau, Statistics India, daily press

- India's GDP edged up by 8.9% y-o-y in Q3 07, which makes up a full 9% rate of growth for the first three quarters over the same period a year ago. Manufacturing output expanded 8.6%, thus easing somewhat compared to the 10.2% gain recorded in Q2. The service sector expanded 10.2% while agriculture (still accounting for the income of two-thirds of households) rose 3.6%, accelerating from the 2.9% growth recorded in the corresponding period of last year. Further stimulus was injected by external demand with real exports growing by 4.4% y-o-y while import decreased by 0.5 in Q3, and this notwithstanding the strength of the *rupee*.
- The construction sector growth in Q3 remained very robust, reflecting heated activity in both residential and non-residential sectors (11.1% y-o-y). Real estate investment is particularly buoyant as rapid economic growth and huge foreign capital inflows fuel demand. Stimulus to the sector has been added also by high levels of public investment aimed at easing infrastructure constraints.
- Strains on Central Bank's (RBI) monetary policy are mounting. On the one hand, further interest rate hikes would provide additional stimulus to portfolio capital inflows that are in turn exerting upward pressure on the *rupee*. On the other hand, inflationary pressures remain strong, given ongoing rapid pay rise, continued appreciation of property prices and bottlenecks caused by insufficient infrastructure and production capacity. In addition, current peaks of oil prices will further intensify supply-side pressures should the government give up energy subsidies in order to reduce its fiscal burden. As a matter of fact, India's fuel subsidies might cost as much as \$17.5 bn this year, or 2% of the GDP.
- Strong foreign investment inflows have led the *rupee* appreciating by more than 12% *vis-à-vis* the dollar since the beginning of 2007 (or 5% in real effective terms). The RBI has allowed such a sharp appreciation given its inflation concerns and at the cost of a worsening trade deficit, which however does not pose particular risks.

INDIA



Sources: Reserve Bank of India, Office of Economic Advisor, Labour Bureau, Statistics India, BIS, daily press

CHINA

Real Indicators*	2004	2005	2006	Latest
GDP	10.1	10.4	10.7	11.5 Q3
Industrial Production	16.3	15.9	15.3	17.3 Nov
Consumer Prices	3.9	1.8	1.5	6.9 Nov
Producer Prices	6.1	4.9	3.0	4.6 Nov
Trade Balance (US\$bn)	32.8	102.1	177.5	253.6 Q3°
as a percentage of GDP	0.8	1.9	2.9	3.7
Real Effective Exchange Rate Index [§]	92.4	91.4	92.8	96.9 Nov

Notes:

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
1Y Lending Rate	5.4	5.6	5.9	7.3 Oct
Central Bank Rate	9.5	6.0	8.0	7.5 Oct
Stock Exchange Index (Shanghai) (% ch)*	1.3	-22.2	39.6	84.7 19/12/07**

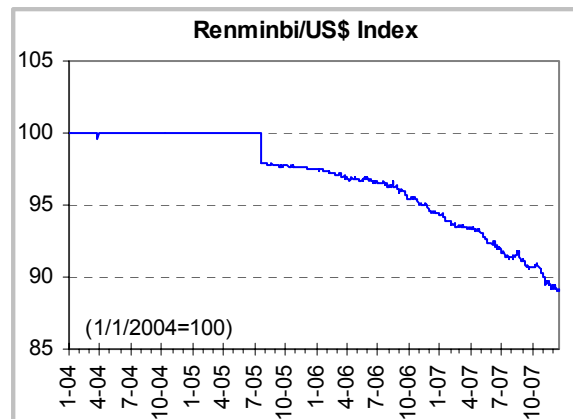
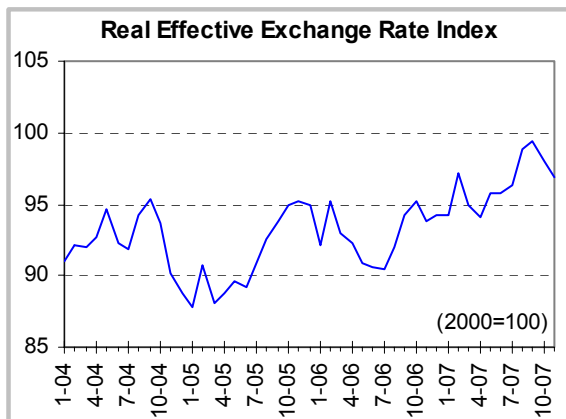
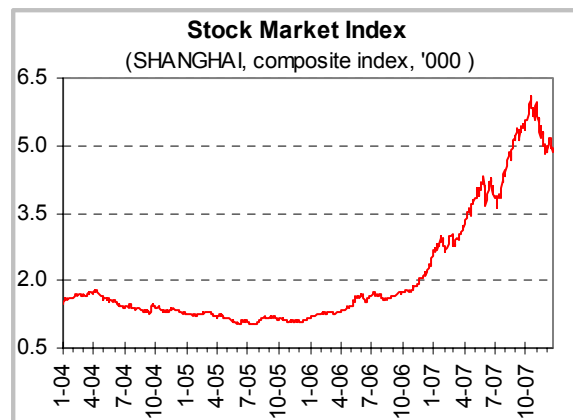
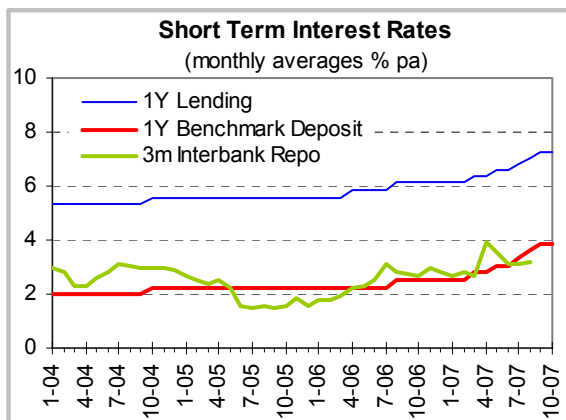
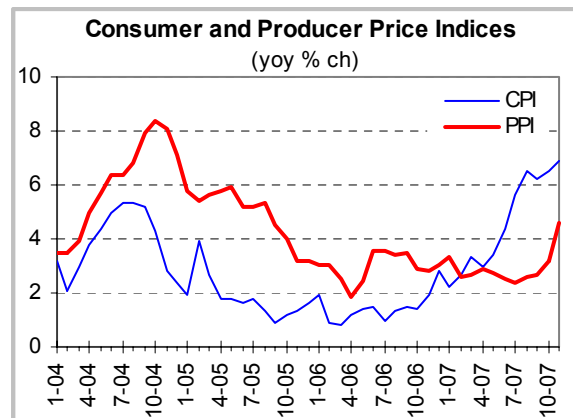
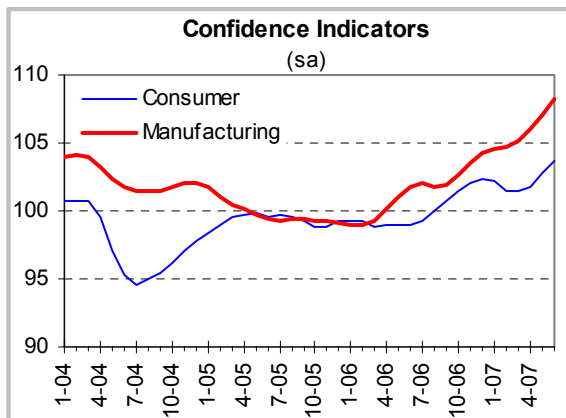
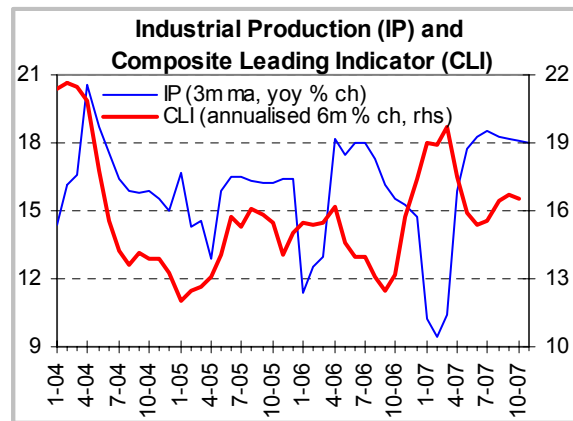
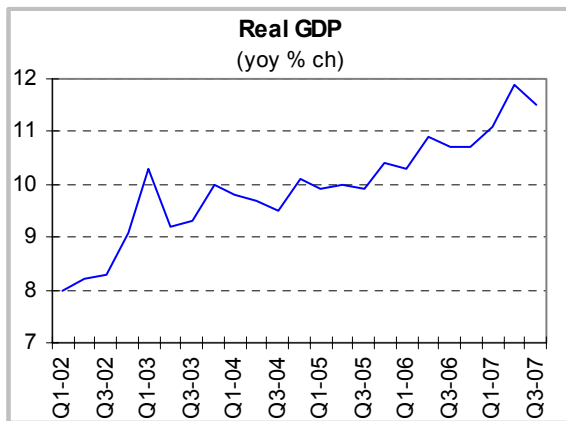
Notes:

* Average over year; ** % change on 31/12/06

Sources: National Bureau of Statistics, OECD, EIU, People's Bank of China, daily press

- The Chinese economy kept growing at a double digit pace (11.5% y-o-y in Q3 07 compared with 11.9% in Q2). Also, aggregate annual growth for the first three quarters of the year stands at 11.5%. The economy is thus on course to record this year its fastest rate of growth since 1993.
- Exports and investment continue to drive the economy. Despite gathering headwinds over the global economy, exports have maintained traction, while imports grew even more astonishingly. However, at the same time, household spending continues to lag significantly. The National Bureau of Statistics (NBS) reports that investment accounted for 42% of GDP in the first nine months of the year, against a 37% share for private consumption. By comparison, the share of private consumption to GDP stands at 70% and over 60% in the United States and India, respectively.
- Data released by the General Administration of Customs showed that the trade surplus stood at US\$26.3 bn in November. Although that figure was down from October, for the first eleven months of the year, China's trade surplus has increased by 53% in US\$ terms.
- The consumer price index rose by 6.9% y-o-y in November. Food prices were up by 18.2%, with meat prices grown by 56% and prices for grains up by 6.6% y-o-y. The food prices picture contrasts sharply with other consumer goods areas, which continue to present very moderate price pressures.
- Rising inflation has caused real rates to turn negative. The availability of cheap credit is contributing to fuel a boom in both the property and the stock market. Authorities have implemented administrative controls in a bid to curb credit growth. The government has already raised interest rates five times and banks' reserve requirement ratios nine times so far this year. However, the tightening stance has had only limited effects. As a matter of fact, the residential boom does not seem to show any sign of cooling off. China's property prices (based on prices in 70 major cities around the country) continued to rise by 9.5% y-o-y in October. In addition, the mortgage sector is expanding at unabated pace. The boom witnessed on the infrastructure front has also given a tremendous boost to industrial and tourism development in China. The government has re-affirmed its commitment to infrastructure building by chalking out some major development projects for the 11th six-year plan period (2006-2012). These include construction and overhaul of roads, railways, oil utilities, water infrastructure and ports. Major ongoing projects in the country include the US\$ 36bn road and seaport development programme in Guangdong; the US\$ 29.5bn high-speed rail-link between Guangzhou and Nanning; the US\$ 8.2bn Sichuan-Shanghai pipeline project, and the US\$ 6.58bn nuclear power project in Dalian.

CHINA



Sources: National Bureau of Statistics, OECD, EIU, People's Bank of China, daily press

KAZAKHSTAN

Real Indicators*	2004	2005	2006	Latest
GDP	9.9	9.4	11.1	8.4 Q2
Industrial Production	17.8	5.3	6.3	3.8 Oct
Consumer Prices	7.1	7.9	8.7	17.5 Nov
Producer Prices	16.8	23.7	18.5	18.6 Oct
Unemployment Rate (%)	8.4	8.1	7.8	7.1 Q3
Current Account Balance (US\$bn)	0.3	-1.1	-1.8	-4.3 Q2°
as a percentage of GDP	0.8	-1.8	-2.2	-4.8
Real Effective Exchange Rate Index [§]	93.1	96.4	104.1	103.3 Sep

Notes:

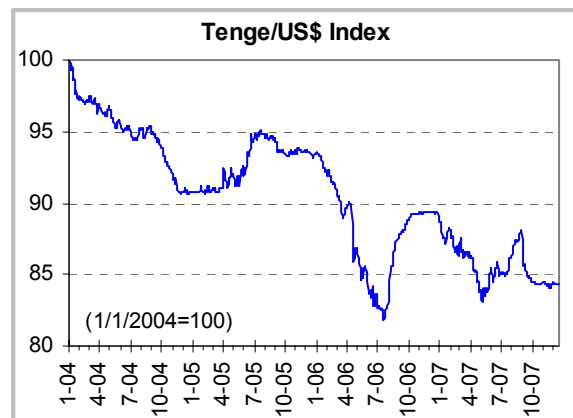
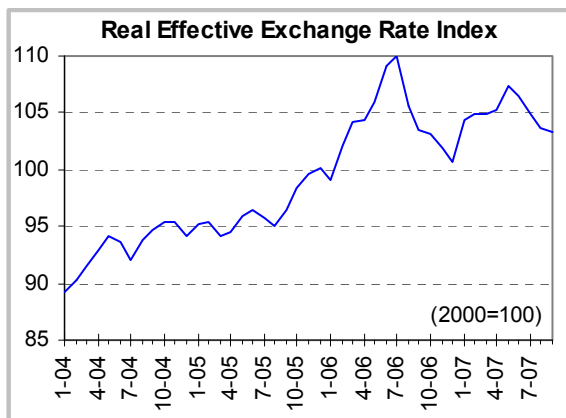
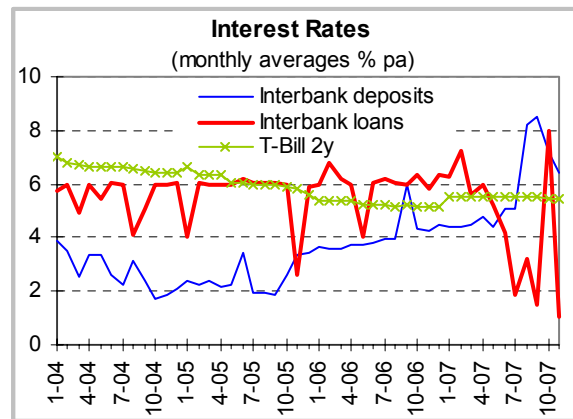
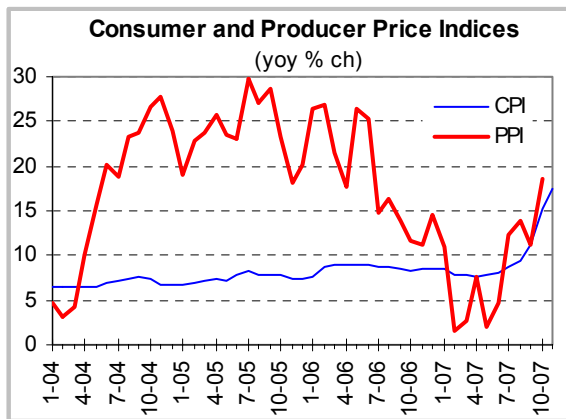
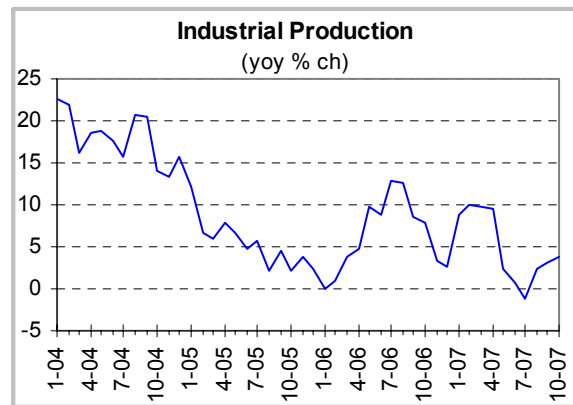
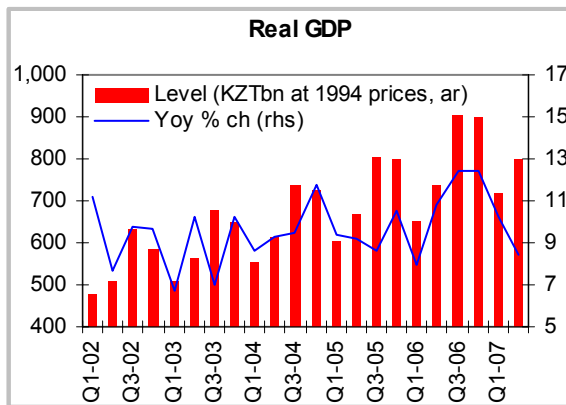
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q2 included; § 2000=100

Financial Indicators				
Refinancing Rate (end of period)	7.5	7.8	8.6	9.0 Nov
Short Term Interest Rate pa (<1 year)	4.8	2.8	3.5	6.1 Nov
Exchange Rate Tenge/\$	135.9	132.9	126.0	120.7 Nov

Sources: National Bank of Kazakhstan, EIU, IMF, Interstate Statistical Committee of the CIS

- GDP expanded by 9.7% y-o-y over the January-September period, with the economy marginally losing momentum in the third quarter. After a very strong start of the year, industrial growth has also moderated, posting a +4.8% y-o-y in Q3.
- The slowdown has materialised as the Kazakh banking sector has been badly hit by the global financial turmoil. The country's banks have been vulnerable to the credit crunch due to their heavy dependence on foreign borrowing. The general concern is that the banking sector will be unable to keep its lending activity at a sustained pace at a time when foreign lenders are becoming more risk-adverse.
- Recently, Standard and Poor's has cut its outlook on eight Kazakh banks due to increasing worries on banks' assets quality and liquidity shortages. The government's reaction has been an allocation of total US\$4 bn to support liquidity in the country's financial sector, and the first instalment of US\$1 bn has been already granted.
- The boom in the construction sector continued, and the January-September growth rate reached an astonishing rate of 30.4% y-o-y. This figure is skewed by large-scale infrastructure works in the oil and gas sector; however, according to the state statistics agency, investment in housing grew by 56% in volume terms in the first nine months of the year. In the above context, the government has shown growing concern on the construction industry due to the recent credit squeeze. As a matter of fact, the government intervened in mid-September through a series of anti-crisis measures, setting caps on mortgage rates and implementing a moratorium on banks' foreclosures.
- The authorities are also focused on prices stabilisation. The consumer price index surged by 17.5% y-o-y in November. Further to the trend seen over the past months, inflation was propelled by a surge of 24.7% y-o-y in food prices. Early in December, the National Bank increased its official refinancing rate by 200 basis points. This, together with the resultant deceleration in credit growth, should bring some easing as far as demand-side inflation pressures are concerned. However, such pressures are set to remain vigorous given persistently high oil prices that will keep boosting inflation and demand.

KAZAKHSTAN



Source: National Bank of Kazakhstan