

Economic Profile in ITC Group Countries

N. 3 - December 22nd 2008

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

| | |
|-------------|------------------------------------|
| ann | annualised |
| 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 2008

Available in @Gold

Highlights

- The economic scenario is getting gloomier and gloomier at an unprecedented pace.
- Data for the third quarter 2008 show that most industrial economies were already in recession even before the eruption of the financial crisis in mid-September with all the others turning negative in the current quarter.
- Since then liquidity constraints, tighter credit conditions, flight from risky assets, dramatic falls of stock markets across the world have completely changed the economic sentiment at both the producer and the consumer level, thus rapidly impacting on the real economy.
- On the supply side, investment and production plans have been postponed/downsized, the workforce reduced and businesses' organisations streamlined. As a side effect, prices of raw materials, to start with energy, as well as freight rates have been plunging from the peaks reached last summer.
- On the consumption side, confidence levels are plummeting following dark expectations for disposable income and employment; a negative wealth effect – stronger in the US but also appreciable in Europe – adds up to yield a more cautious spending stance.
- Economic policy intervention has been mixed so far. On the one hand, monetary authorities have reacted promptly through ample liquidity injections, large rate cuts and the recourse to non orthodox tools. On the other hand, wide, timely and coordinated fiscal stimula are needed, which however seem still far from being fully implemented also given the long political transition phase in the US and the different views and approaches prevailing within the EU.
- The emerging area is by no means sheltered from the global turmoil. Economic indicators signal that most countries are already heavily affected by faltering global demand. Also emerging capital markets are being hit as capital outflows reveal a strongly reduced risk appetite and stocks have plunged far more deeply than in the industrial area. All in all, what is surprising on the negative side is the pace at which economic conditions are deteriorating in most emerging countries, to start with China.
- On balance, it is widely believed that the recessionary trough will be hit between the current quarter and the next with prospects slightly improving only starting in 2H 09. This scenario can however materialise only under a number of conditions, namely that: governments in the western world take resolute fiscal action in order to face up the downturn; the financial sector is stabilised and does not send new shockwaves; protectionist policies are not put in place.
- Should such conditions fail to be satisfied the recession could even turn into a depression, with deflation (i.e. a continuous fall of price levels) being its dominant trait.

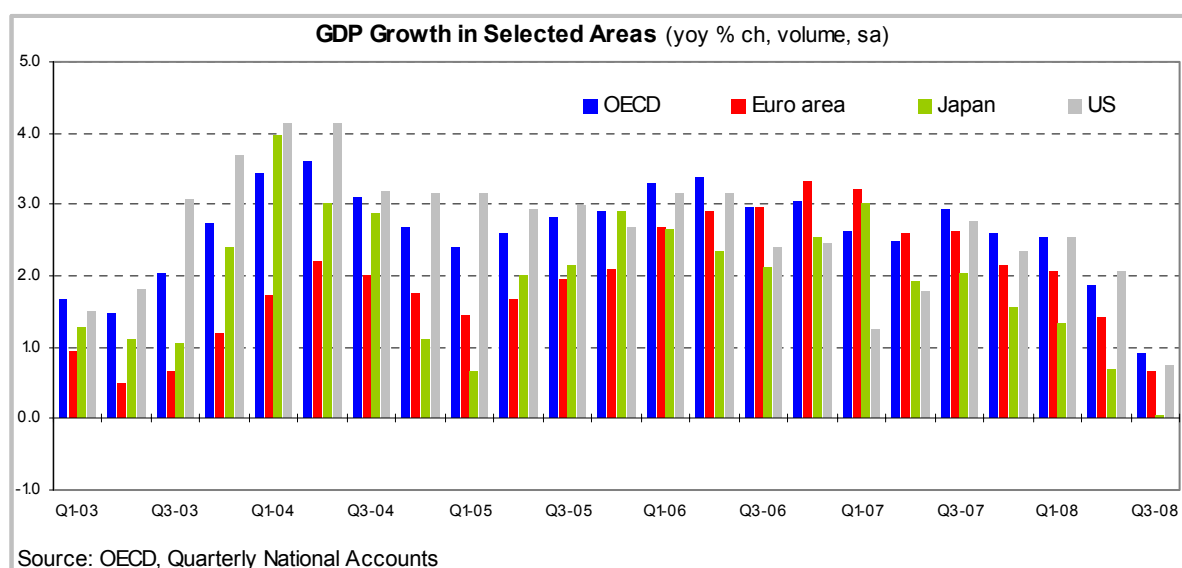
GLOBAL ECONOMIC CONDITIONS: Real Indicators

| yoy % ch (unless otherwise indicated) | 2005 | 2006 | 2007 | Latest |
|---------------------------------------|------|------|------|----------|
| GDP: OECD | 2.7 | 3.1 | 2.7 | 0.9 Q3 |
| Euro Area | 1.7 | 2.8 | 2.6 | 0.6 Q3 |
| US | 2.9 | 2.8 | 2.0 | 0.7 Q3 |
| Japan | 1.9 | 2.4 | 2.1 | 0.0 Q3 |
| Inflation: US | 3.4 | 3.3 | 2.8 | 1.1 Nov |
| Euro Area | 2.2 | 2.2 | 2.1 | 2.1 Nov |
| Oil Price Level (Brent, \$/barrel) | 54.4 | 65.4 | 72.7 | 52.6 Nov |
| (yoy % ch) | 42.0 | 20.2 | 11.2 | -43.6 |

Notes:

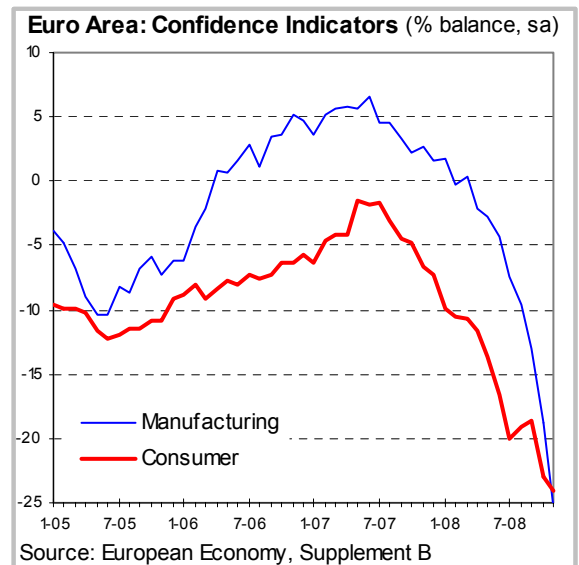
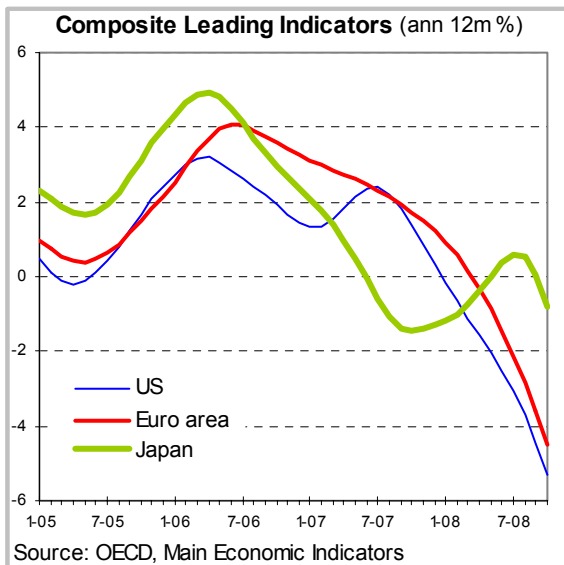
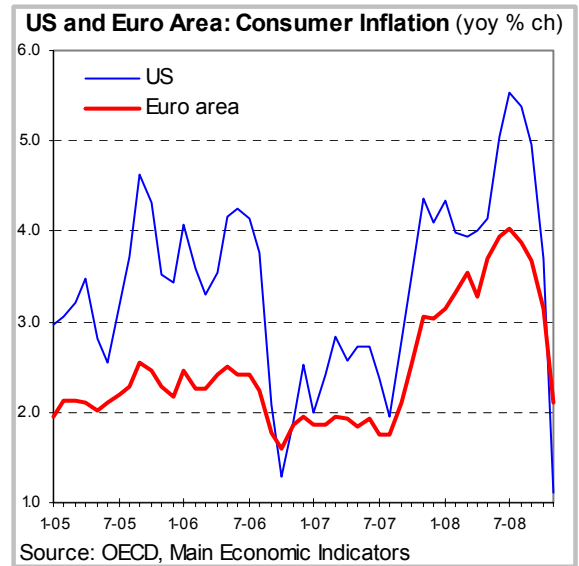
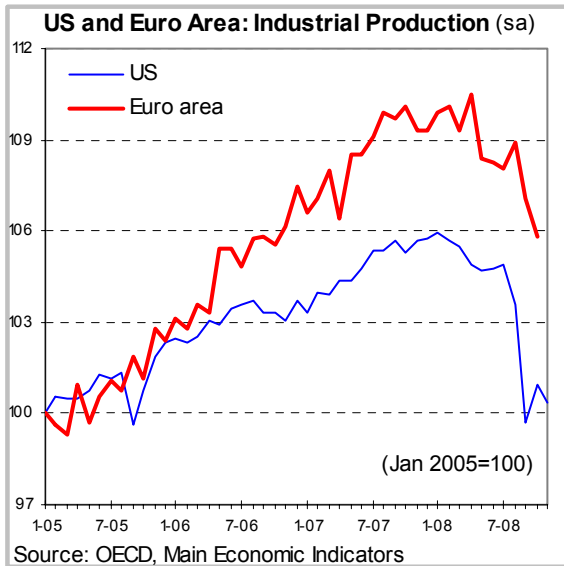
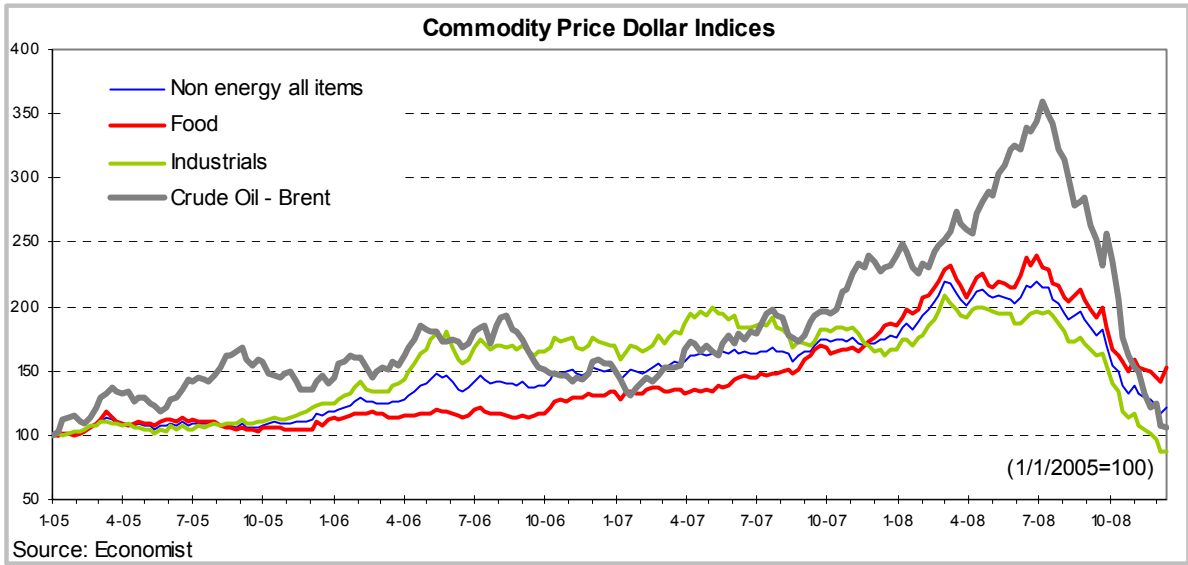
Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, Energy International Agency

- Growth at global level has slowed dramatically in Q3 with a number of major countries in technical recession. Most worryingly this happened before the financial crisis erupted in September triggered by Lehman Brothers bankruptcy. Tighter credit conditions are ultimately at the roots of the global slowdown causing businesses to rein in spending, hence plunging consumer confidence and faltering demand. Also world trade is shrinking with additional damage to emerging countries. Following swift monetary policy reactions, governments across the globe are trying to design and implement effective intervention to avoid further crashes and prop up domestic demand.
- The outlook for GDP growth has deteriorated sharply for next year. While a negative Q4 08 is widely expected in most countries there has been a continuous stream of downgrades for 2009 not only in mature economies but also in emerging ones. The IMF revised its world prospects downwards in November to 3.7% and 2.2% for 2008-09 respectively (which means -0.2% and -0.8% compared to its previous forecast of only a month earlier) while the World Bank has just released its forecast of 1.9% in 2009 and most recent private forecast are even gloomier.
- The positive side of this otherwise dismal picture is the downturn in commodity prices and thus the reversal in inflation trends. After hitting 145\$/barrel early in July the oil price took a plunge and is now trading around 40\$/bl despite the recent announcements by the OPEC of a record production cut (2.2mn/bl per day on top of 2mn already announced, making up 4.2mn/bl a day less than the September production levels). This notwithstanding prospects for oil and other commodity prices, particularly metals, remain benign as there is ample evidence of faltering demand for such goods (mostly from China) which is also indirectly witnessed by the dive in freight rates over the summer. As a result, and taking into account weakening economic activity globally, inflation is falling almost everywhere so rapidly that there is even increasing worry about a deflationary outlook.



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REAL INDICATORS



GLOBAL ECONOMIC CONDITIONS: Financial Indicators

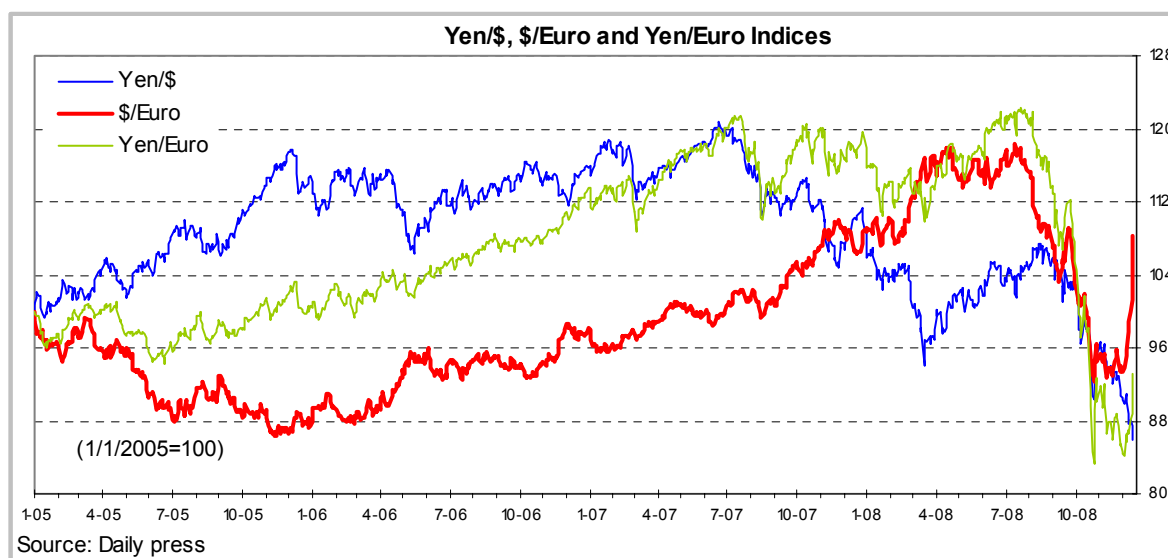
| | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|-------------------|
| Dollar/Euro Exchange Rate | 1.244 | 1.256 | 1.370 | 1.473 * |
| Policy Rates (end of period): | | | | |
| - US (target for federal funds) | 4.25 | 5.25 | 4.25 | 0.0/0.25 16/12/08 |
| - Euro Area (repo rate) | 2.25 | 3.50 | 4.00 | 2.50 10/12/08 |
| Long Term Interest Rate (10y government bonds, year average): | | | | |
| - US | 4.29 | 4.79 | 4.63 | 3.53 Nov |
| - Euro Area | 3.44 | 3.86 | 4.33 | 4.21 Nov |

Notes:

* Average from 2/1/2008 to latest available data

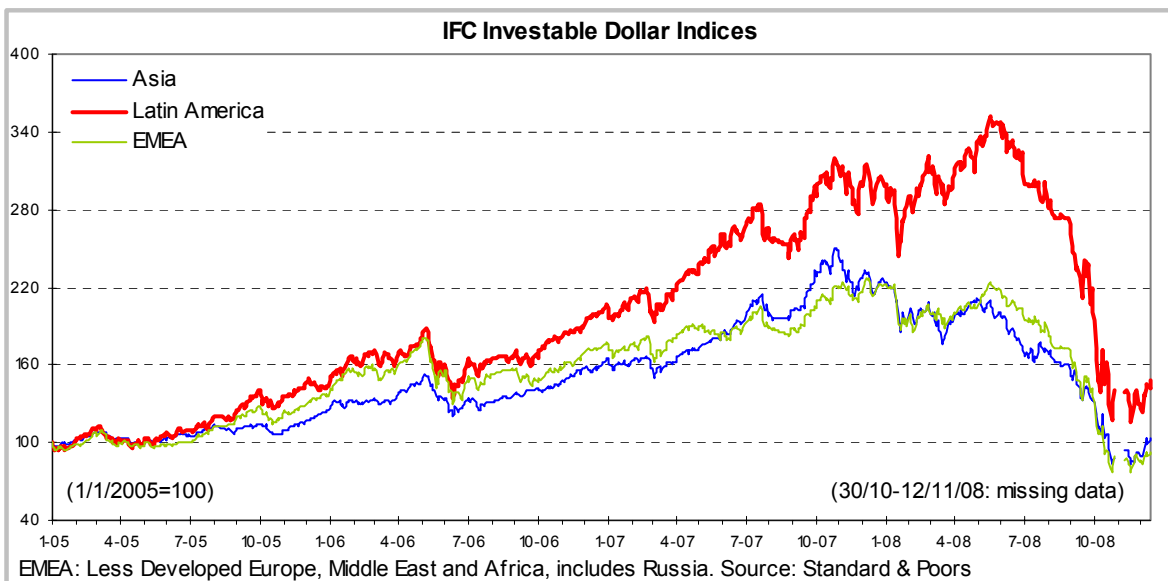
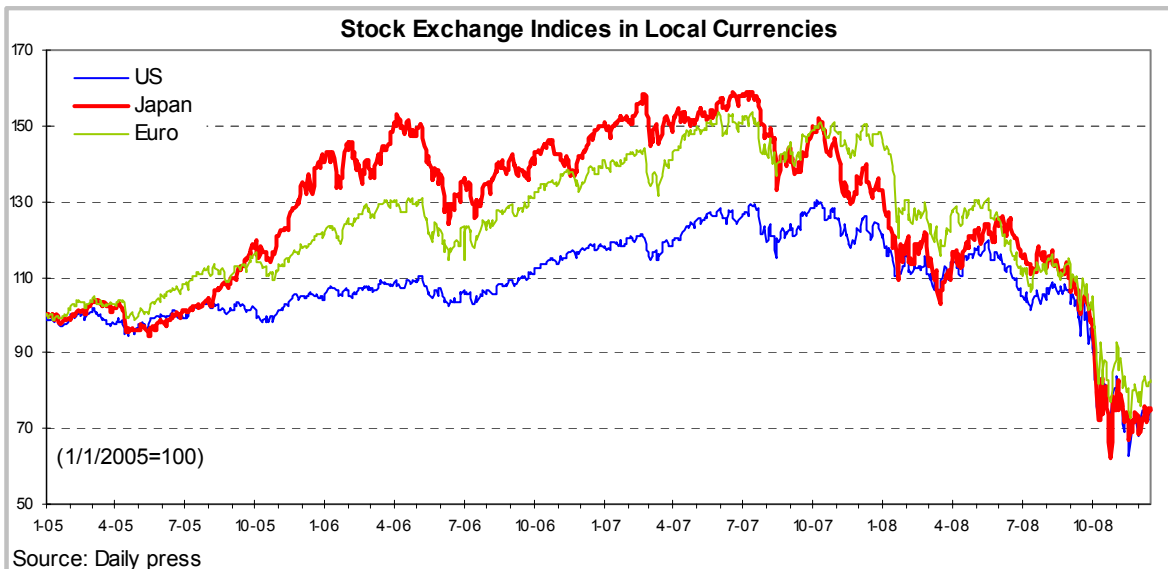
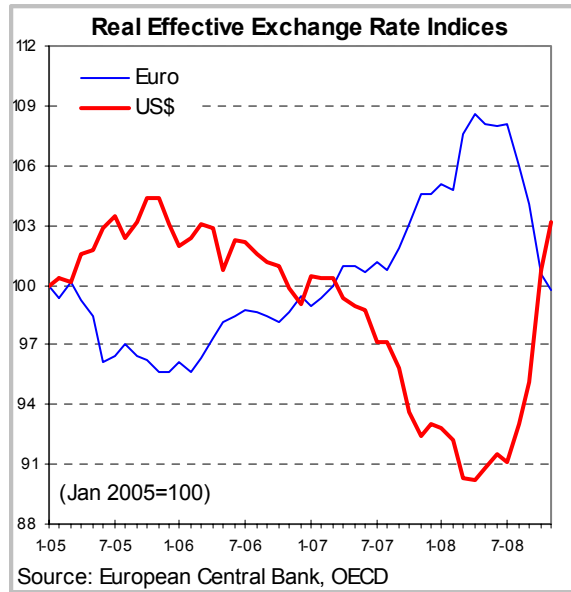
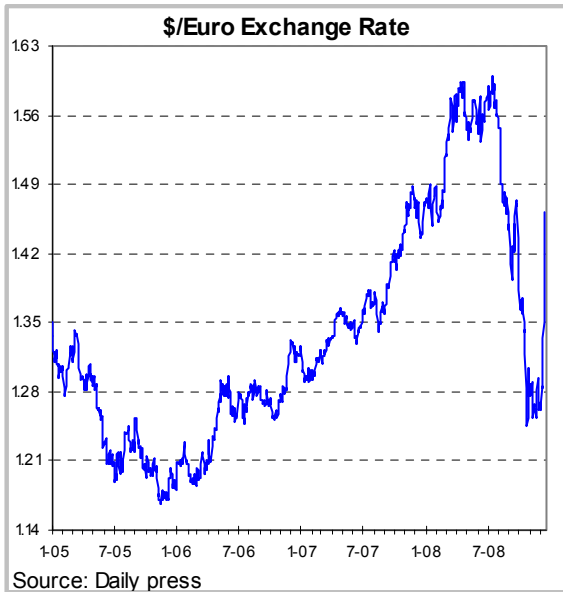
Sources: European Central Bank and Federal Reserve Bank

- Stress in financial markets in the US and in Europe started to pile up following the sub-prime crisis in summer 2007, escalated over the course of 2008 (with the takeover of Bear Stearns by JPMorgan in March) and culminated last September when several financial institutions collapsed or came close to bankruptcy (from Fannie Mae/Freddie Mac to Lehman Brothers and AIG, to cite the main triggers). Since then many other banks or related entities went into trouble and the contagion spread globally via the so called "toxic assets" - bad assets in financial institution sheets related to nonperforming loans in the US and ultimately to its mortgage market.
- In this context, markets have entered a vicious cycle of asset deleveraging, price declines, and investor redemptions. Stock markets worldwide have nosedived losing almost half of their value on average. Credit has been dramatically tightened also as banks became increasingly risk-averse.
- Central banks have drastically loosened monetary policy, in some cases in unprecedented coordinated moves. In particular, since the onset of the crisis the Fed has brought the policy rate down to 0/0.25% from 2% (so-called ZIRP) while the ECB down to 2.5% from 4.25% (reverting what has been widely criticised as a policy mistake in July) and more is to come. Central banks are beginning to experiment with unorthodox measures such as "quantitative easing" as falling interest rates and fears of deflation are starting to limit their options using conventional methods.
- Markets have calmed down somewhat in recent weeks. Spreads between interbank and policy rates have narrowed sensibly but spreads on riskier assets remain large. There has been a run on bonds which has lowered yields particularly in the US. Rather surprisingly the US\$ has strengthened acting as a safe haven currency at world level although the recent move by the Fed is once again weighing down on the US currency. All in all, volatility remains extremely high.

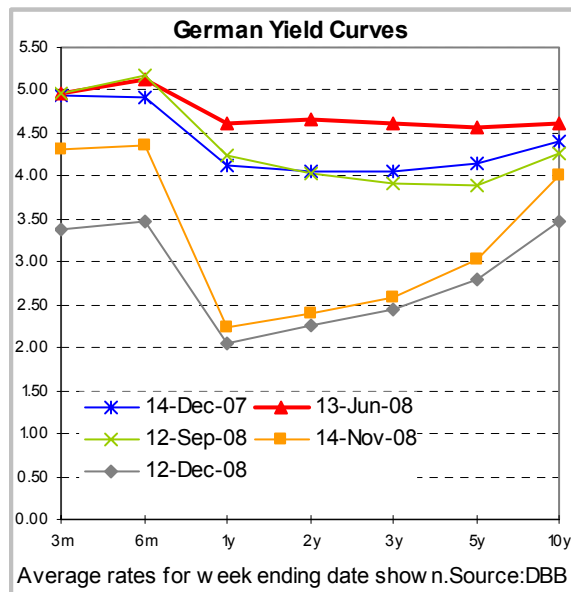
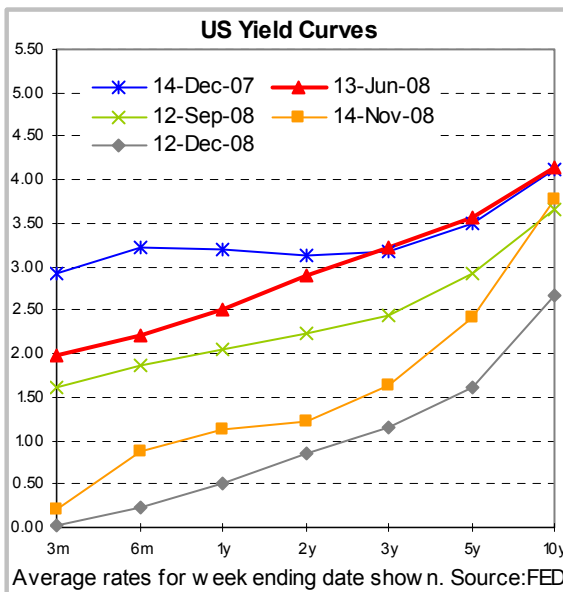
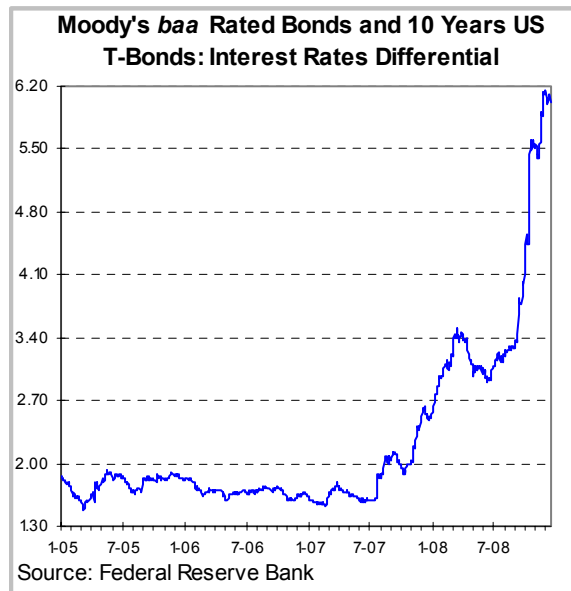
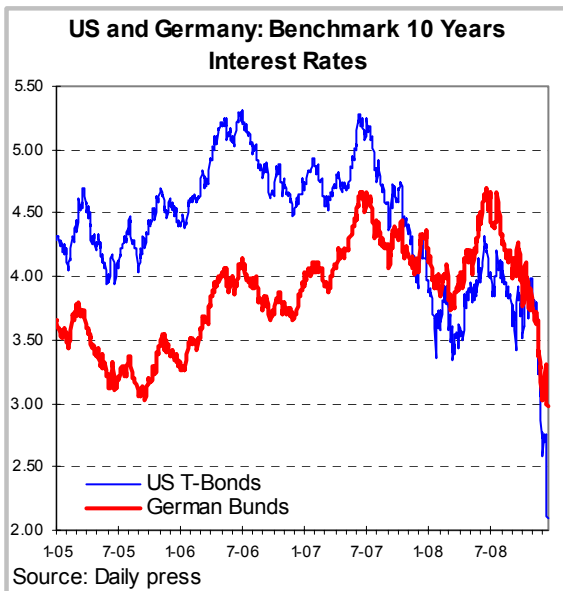
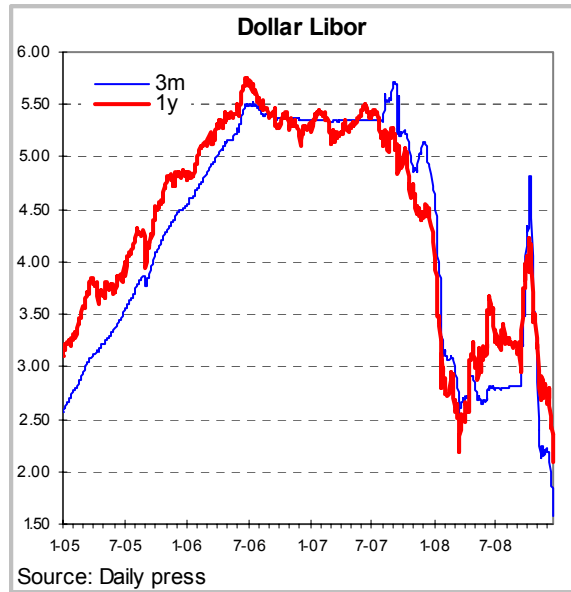
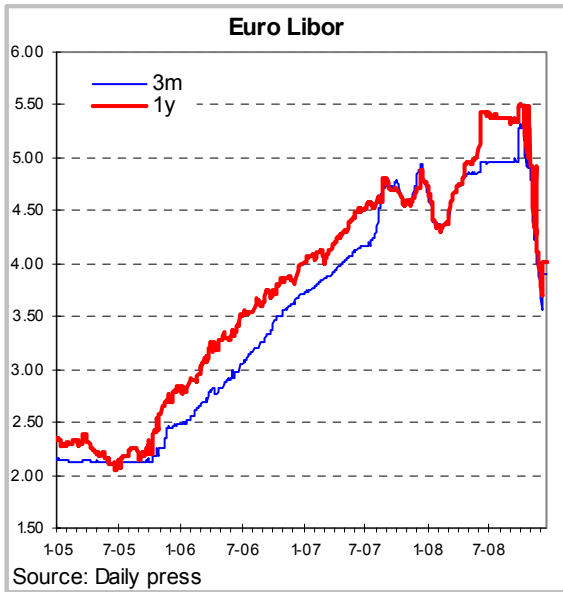


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FINANCIAL INDICATORS



FINANCIAL INDICATORS



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UNITED STATES

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|--------|--------|--------|------------|
| GDP | 2.9 | 2.8 | 2.0 | 0.7 Q3 |
| Industrial Production | 3.3 | 2.2 | 1.6 | -0.6 Nov** |
| Construction Investment | 3.2 | -2.4 | -5.6 | -6.0 Q3 |
| Consumer Prices*** | 3.4 | 3.3 | 2.8 | 1.1 Nov |
| Producer Prices - Finished Goods*** | 4.8 | 3.0 | 3.9 | 0.4 Nov |
| Hourly Earnings - Manufacturing*** | 2.6 | 1.5 | 2.7 | 2.9 Nov |
| Standardised Unemployment Rate (%) | 5.1 | 4.6 | 4.6 | 6.7 Nov |
| Current Account Balance (US\$bn) | -729.0 | -788.1 | -731.2 | -697.9 Q3° |
| - as a percentage of GDP | -5.9 | -6.0 | -5.3 | -4.9 |
| Real Effective Exchange Rate Index [§] | 93.3 | 92.6 | 88.6 | 93.4 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) | 3.51 | 5.15 | 5.27 | 2.36 Nov |
| Long Term Interest Rate pa (benchmark 10y) | 4.29 | 4.79 | 4.63 | 3.53 Nov |
| Stock Exchange (S&P 500) Index (% ch)* | 6.8 | 8.5 | 12.7 | -38.3 18/12/08** |

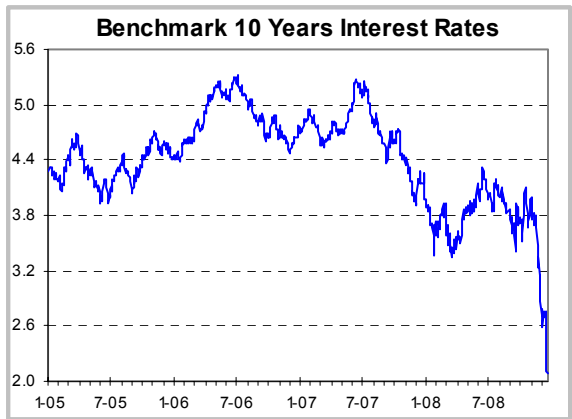
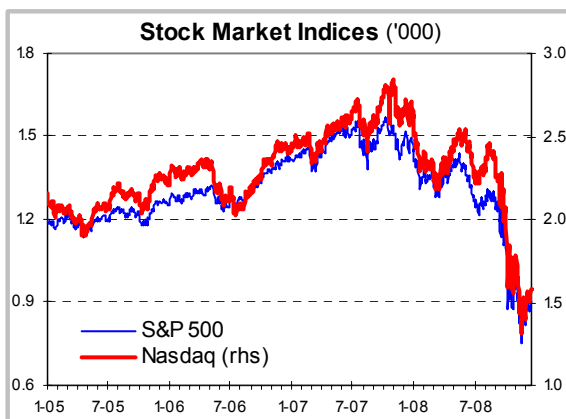
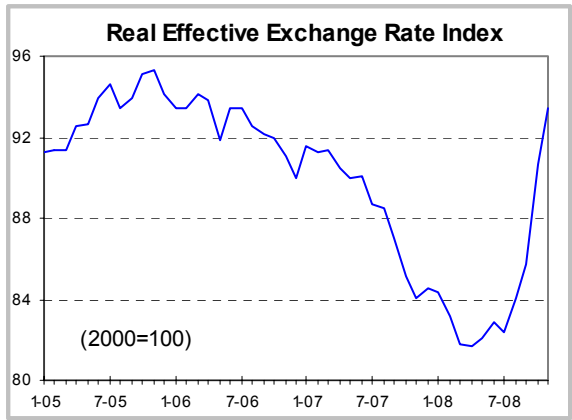
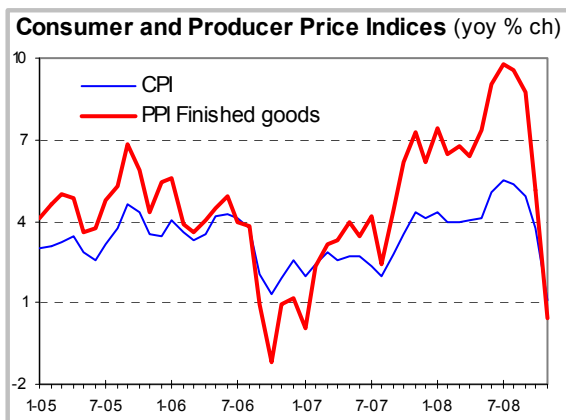
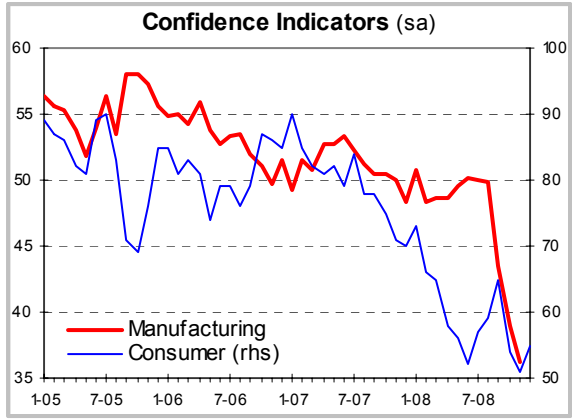
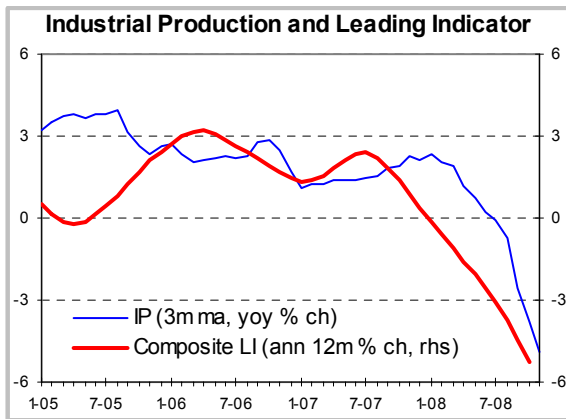
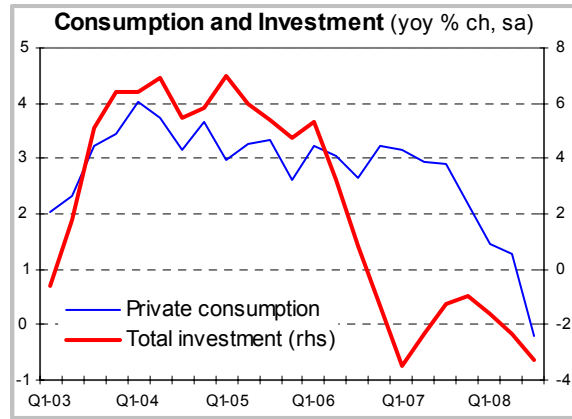
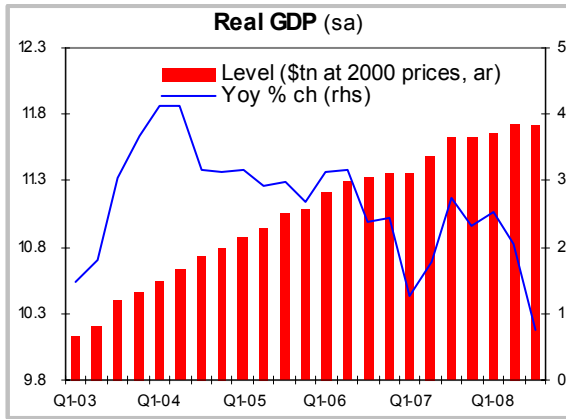
Notes:

* Average over year; ** % change on 31/12/07

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

- National accounts data for Q3 08 confirmed that the US economy has started to decline. GDP decreased marginally by 0.1% qoq but a closer look to the data reveals a more alarming picture. Consumption fell sharply (-0.9% qoq, the largest drop in almost 30 years) particularly in the non durables component. Falling prices for stocks and homes, the weak labour market, consumer uncertainty, and an end to the tax rebates all contributed to the decline. Private investment contracted too (-1% qoq) mostly driven by the still plunging housing sector.
- Positive contributions to overall GDP growth came from inventories, net trade and government spending. Stock build-up has been mostly unwanted given the intensity of the turnaround in demand conditions; hence a negative contribution to growth is to be expected for the current quarter. Both export and import faltered but the boost from trade is going to shrink due to the weakening in global demand. In this respect, the positive news is the diminishing current account deficit. Fiscal action will thus remain the main support to the economy (see below).
- There is a continuous stream of news signalling that the economy is heading towards a harsh recession which may last for several quarters. Payrolls contracted by a shocking 533,000 in November and every major gauge of output - from consumer spending, to industrial production, to factory orders, to confidence indicators - is falling.
- In this context, and also given the higher elasticity in the US to swings in energy prices, inflation pressures have virtually evaporated. In just a couple of months inflation has fallen to 1.1% down from July's peak of 5.5% at the consumers' level and, more stunningly, to 0.4% down from July's high of almost 10% at the producers' level. The new threat looming is thus deflation.
- The federal government has intervened massively to stem the crisis also via substantial financial support. The US\$700bn Troubled Asset Relief Program has been set up in October. A large economic recovery package, which includes vast infrastructure plans, will also be passed immediately after President Obama takes office covering 2009/10 and worth around US\$850bn. Not all of the government's initiatives will add to the federal deficit, which is however destined to soar to 7% of GDP in 2009 or above and according to some estimates taxpayers' ultimate bill for the financial crisis could very well reach US\$2tn.

UNITED STATES



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

CANADA

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|------------|
| GDP | 2.9 | 3.1 | 2.7 | 0.5 Q3 |
| Industrial Production | 1.7 | -0.2 | -0.1 | -0.2 Sep** |
| Construction Investment | 6.7 | 5.3 | 2.2 | 0.5 Q3 |
| Consumer Prices*** | 2.3 | 2.0 | 2.2 | 2.0 Nov |
| Producer Prices - Manufacturing*** | 1.5 | 2.4 | 1.6 | 9.6 Oct |
| Hourly Earnings - Manufacturing*** | 1.8 | 0.5 | 4.2 | 2.3 Sep |
| Standardised Unemployment Rate (%) | 6.8 | 6.3 | 6.0 | 6.3 Nov |
| Current Account Balance (Can\$bn) | 26.5 | 20.2 | 13.6 | 19.5 Q3° |
| as a percentage of GDP | 1.9 | 1.4 | 0.9 | 1.2 |
| Real Effective Exchange Rate Index [§] | 118.7 | 125.4 | 129.7 | 113.2 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) | 2.66 | 4.02 | 4.34 | 2.24 Nov |
| Long term interest rate pa (benchmark 10y) | 4.07 | 4.21 | 4.27 | 3.56 Nov |
| Stock Exchange (TSE) Index (% ch)* | 17.6 | 18.4 | 13.8 | -38.9 18/12/08** |

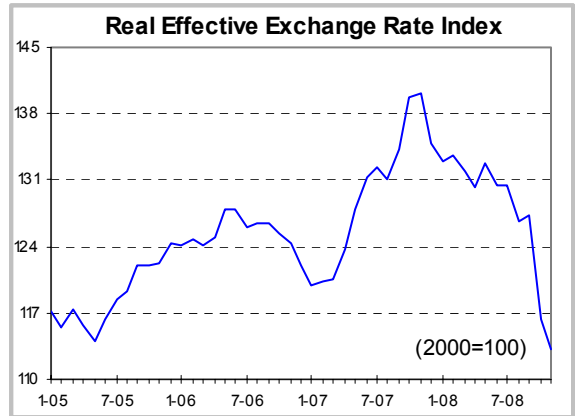
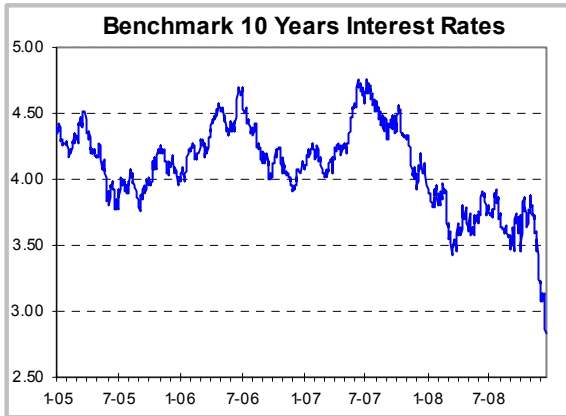
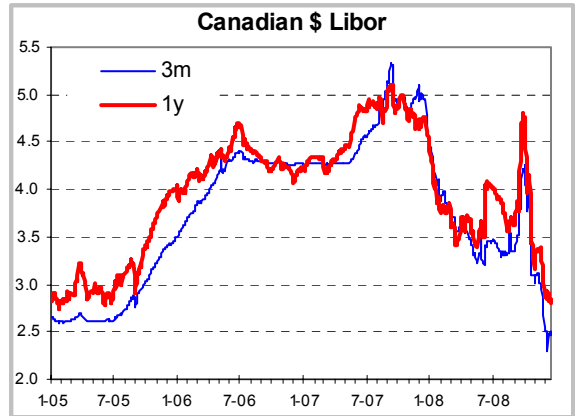
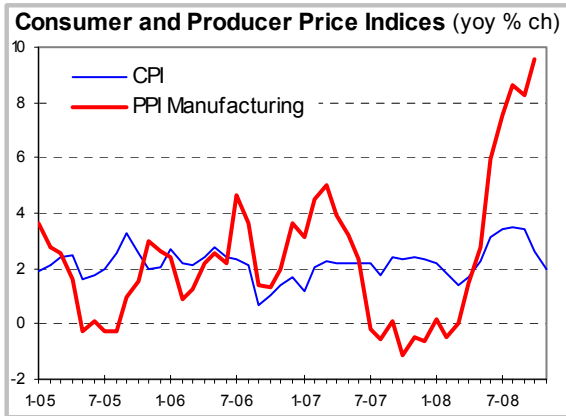
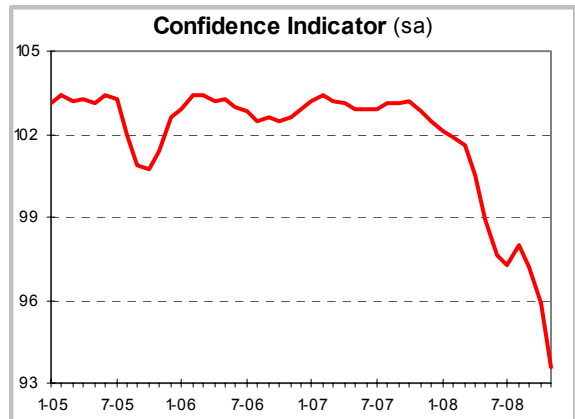
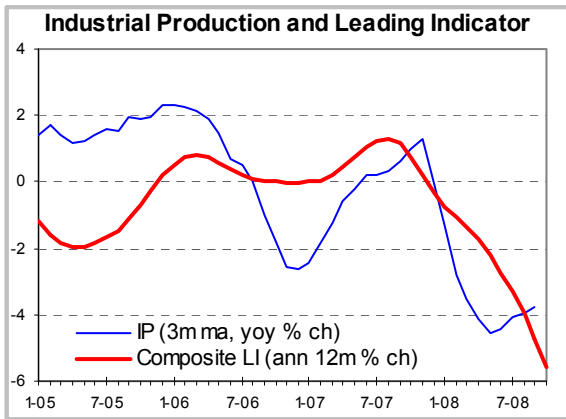
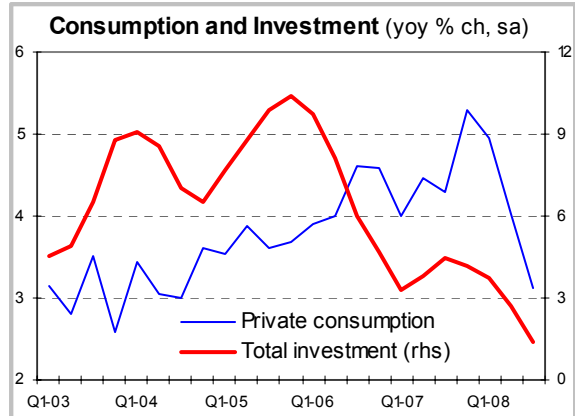
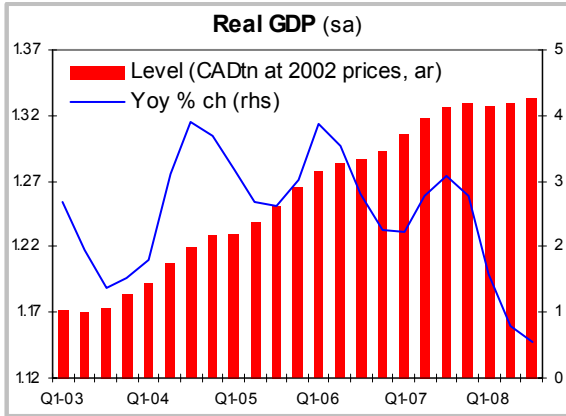
Notes:

* Average over year; ** % change on 31/12/07

Sources: OECD, Statistics Canada, BIS, daily press

- Following flat activity over H1 08, the Canadian economy fared better than expected in Q3 08 and expanded by 0.3% primarily because of a build-up of inventories and a stronger trade sector. The bad news is that consumer spending decelerated further (+0.2% qoq down from 0.5% in Q2 and 1.8% a year earlier) and real exports kept declining (-1.4% yoy, the fifth consecutive fall). Low confidence levels and a weak outlook for profits are depressing also business investment while housing is set to contract for the first time in 10 years.
- On the supply side, a significant boost to GDP came from mining, notably support activities for oil and gas extraction, thanks to sky-high prices of commodities during the summer. Now, with the oil and other commodity prices down sharply, and expected to remain so, Canadian terms of trade are deteriorating with negative consequences for the economy. In particular, the dive in oil prices has hit several huge expansion projects in oil sands.
- Canada suffered its biggest drop in employment in more than 25 years in November as payrolls fell by 70,600 pushing the unemployment rate up to 6.3%. The already battered manufacturing sector bore the brunt of this month losses.
- Inflationary pressures are rapidly waning as energy and commodity prices have plunged. Consumer prices decelerated sharply in November while data for prices at industry level do not show yet significant retrenchment.
- The Bank of Canada lowered its target rate by 75bp down to 2.5% on December 9th, more than the 50bp that were widely expected. In its release, the BoC cited a deterioration in the world outlook which means the global recession will be broader and deeper than previously anticipated and left the door opened to further cuts.
- Canada has taken a more cautious approach to fiscal stimulus than many other industrial countries. In fact, a number of belt-tightening measures were announced in the fiscal update late in November, aimed at maintaining the country's 12-year record of balanced budgets. However, the Finance Minister did not rule out stimulus measures in coming months.

CANADA



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|--|-------|-------|-------|------------|
| GDP (wda) | 1.9 | 2.4 | 2.1 | 0.6 Q3 |
| Industrial Production | 0.3 | 0.5 | 1.5 | -2.7 Oct** |
| Construction Investment | 3.7 | 5.3 | 4.4 | -1.9 Q3 |
| Consumer Prices - Harmonised Index*** | 1.8 | 2.0 | 1.6 | 1.9 Nov |
| Producer Prices - Manufactured Goods*** | 1.8 | 2.5 | 2.2 | 2.8 Oct |
| Hourly Earnings - Manufacturing (<i>ouvriers</i>)*** | 2.9 | 2.8 | 2.8 | 3.3 Q2 |
| Standardised Unemployment Rate (%) | 9.3 | 9.2 | 8.3 | 8.2 Oct |
| Current Account Balance (€bn) | -10.9 | -12.3 | -22.3 | -35.7 Q3° |
| as a percentage of GDP | -0.6 | -0.7 | -1.2 | -1.8 |
| Real Effective Exchange Rate Index [§] | 108.9 | 108.2 | 109.1 | 106.9 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 (Euro Libor 3m) | 2.18 | 3.08 | 4.28 | 4.24 Nov |
| Long Term Interest Rate pa (benchmark 10y) | 3.41 | 3.80 | 4.30 | 3.98 Nov |
| Stock Exchange (CAC) Index (% ch)* | 15.8 | 19.7 | 12.1 | -42.4 18/12/08** |

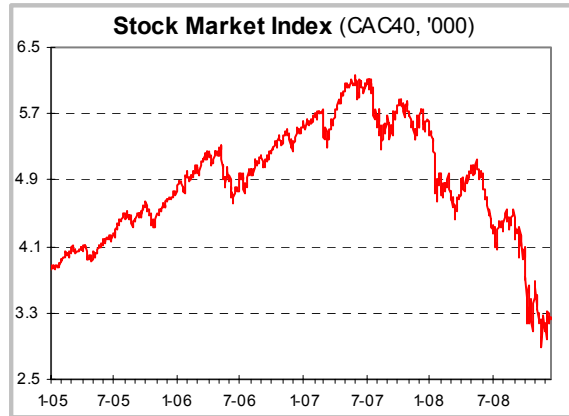
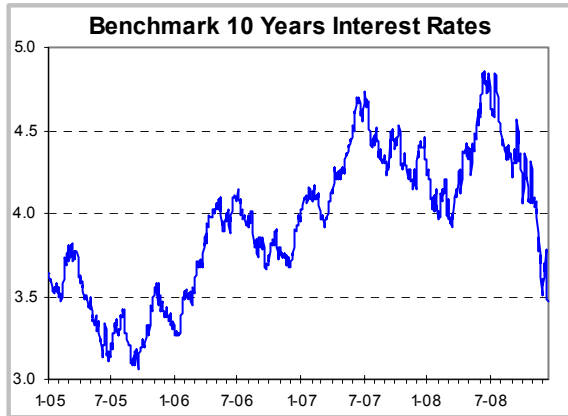
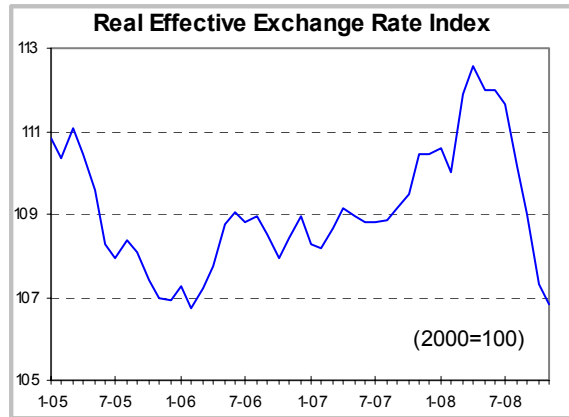
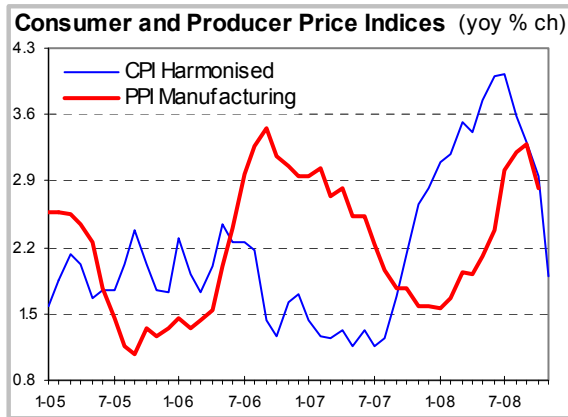
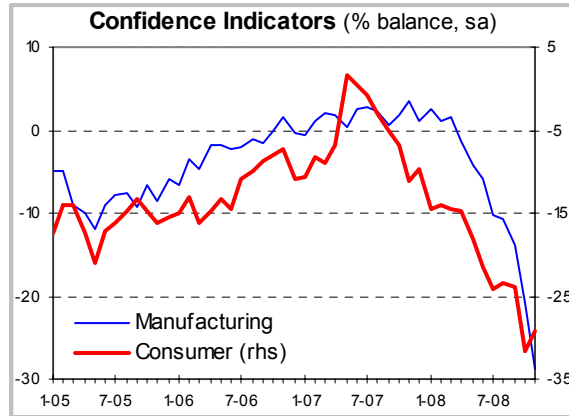
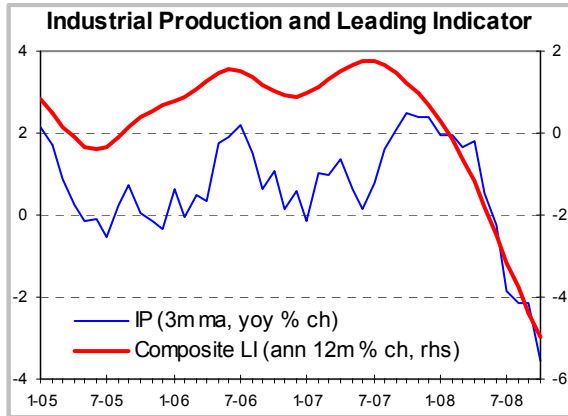
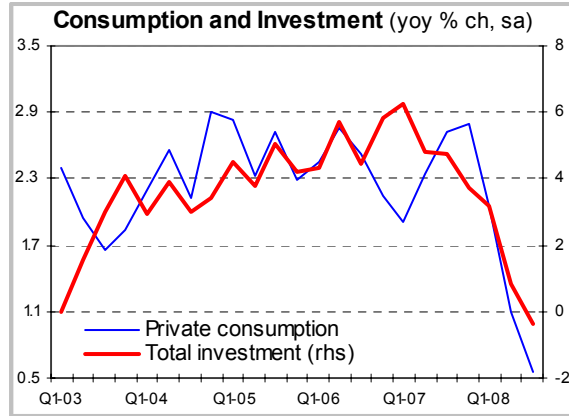
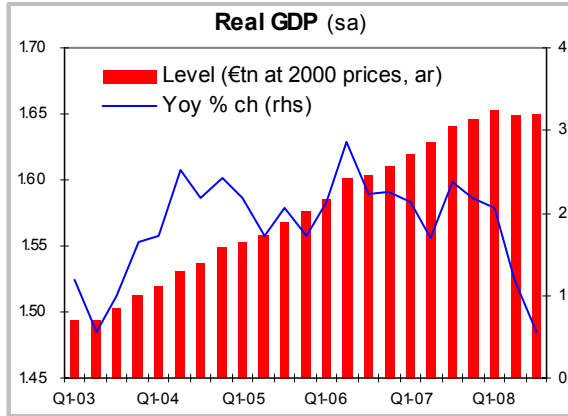
Notes:

*Average over year; ** % change on 31/12/07

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

- France narrowly escaped technical recession in Q3 08 as GDP grew marginally by 0.1% qoq following the -0.4% qoq in Q2. This result was somewhat surprising as most high frequency indicators were pointing to a negative outcome. Consumption held up better than expected and even accelerated slightly (from 0 to +0.2% qoq in Q2 and Q3 respectively) albeit sharply down yoy. Investment continued to fall for the second consecutive quarter, particularly in construction.
- Both import and export maintained relatively good growth rates although the latter rebounded from a dismal Q2 08. As both global and domestic demands recede, also French international trade is set to suffer significantly.
- Prospects for the French economy are gloomy. The labour market, which had supported consumption in recent years, is entering difficult waters. During Q2 and Q3 08 almost 75,000 workers lost their job in the private sector and the ongoing severe crisis in the automotive sector bodes ill for the coming quarters. As a matter of fact, all leading indicators are pointing deeply south with confidence among both consumers and businesses at record lows. However, consumer confidence marginally improved in November on the back of falling inflation.
- Manufacturing production plunged in October (-3.2% mom) largely driven by a slump in the automotive (-14.3% mom, the heaviest drop since 1999), due a temporary shutdown of some carmakers. In this respect, the government is considering further intervention to help carmakers in addition to the measures included in its rescue plan (see below).
- The French President Sarkozy has recently announced a vast rescue plan aimed at limiting the impact of the financial crisis on the real economy worth €26bn (around 1.3% of GDP). The measures include bringing forward planned investment in infrastructure and research, as well as cash-flow improvements, such as accelerated repayment of value-added tax to businesses, incentives for small firms to hire new employees and financial help for the poorest sections of society. Around €1.6bn is earmarked to sustain housing. According to some private estimates the push to the economy of such a plan could be in the order of 0.3-0.5% of GDP. The impact on the fiscal deficit is obviously negative pushing it up to around 4% of GDP next year.

FRANCE



Sources: OECD, INSEE, BIS, daily press

BELGIUM

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---------------------------------------|-------|-------|-------|------------|
| GDP (wda) | 2.2 | 3.0 | 2.6 | 1.3 Q3 |
| Industrial Production | -0.4 | 5.1 | 2.7 | -2.5 Oct** |
| Construction (Gross Value Added) | 4.7 | 8.5 | 3.5 | 1.8 Q3 |
| Consumer Prices – Harmonised Index*** | 2.5 | 2.4 | 1.8 | 3.2 Nov |
| Producer Prices*** | 2.7 | 5.0 | 3.3 | 3.1 Nov |
| Hourly Earnings-Industry*** | 2.5 | 2.2 | 1.7 | 3.3 Q3 |
| Standardised Unemployment Rate (%) | 8.5 | 8.3 | 7.5 | 6.6 Nov |
| Current Account Balance (bn €) | 7.9 | 8.4 | 5.6 | -6.5 Q2° |
| as a percentage of GDP | 2.6 | 2.6 | 1.7 | -1.9 |
| Real Effective Exchange Rate Index§ | 109.3 | 108.9 | 109.9 | 111.1 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) | 2.18 | 3.08 | 4.28 | 4.24 Nov |
| Long Term Interest Rate pa (benchmark 10y) | 3.37 | 3.81 | 4.33 | 4.26 Nov |
| Stock Exchange (BEL20) Index (% ch)* | 25.0 | 22.2 | 13.1 | -54.4 18/12/08** |

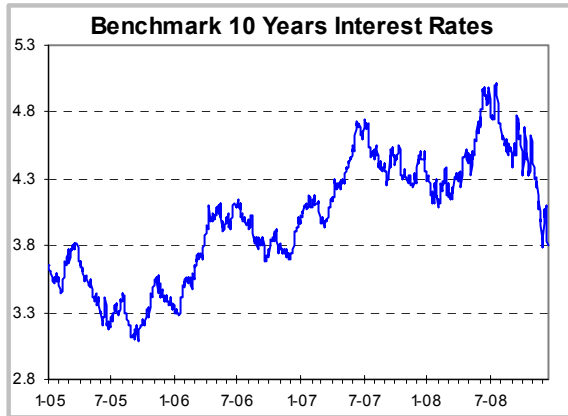
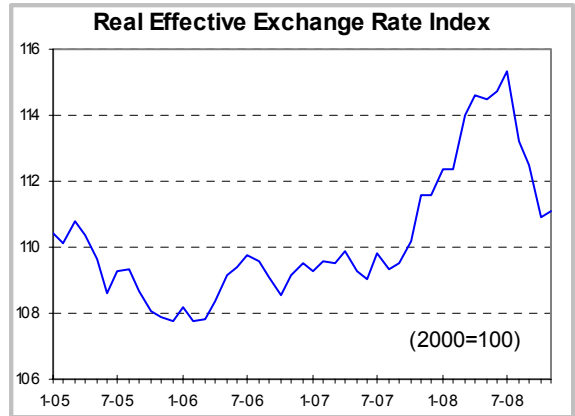
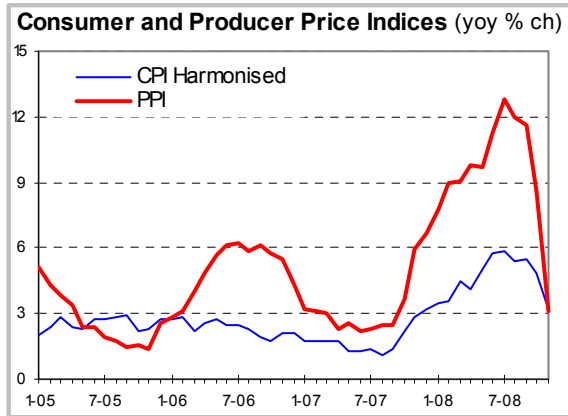
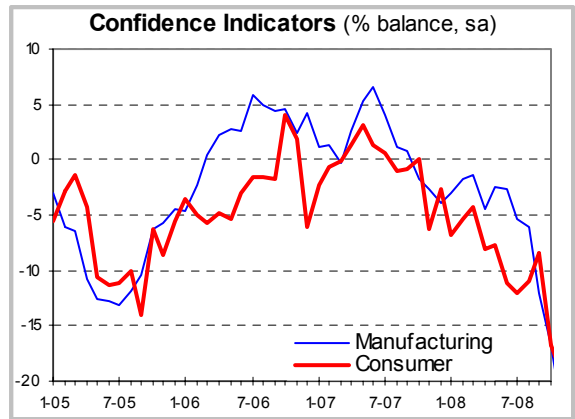
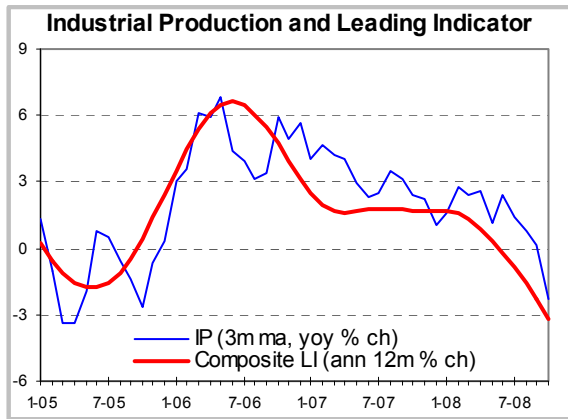
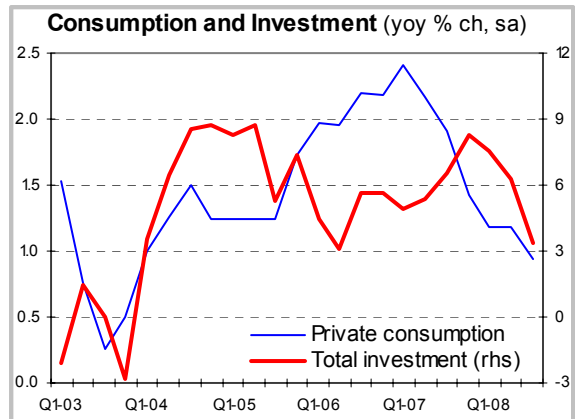
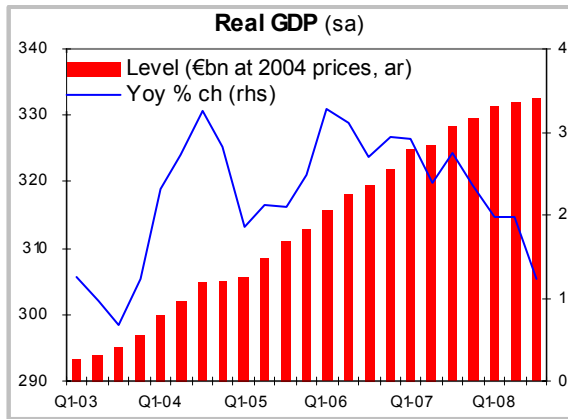
Notes:

* Average over year; ** % change on 31/12/07

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

- Belgium's economy rose by a mere 0.1% qoq Q3 - the lowest quarterly expansion since Q1 2005. Even so, this was a better than expected result, especially compared with several other European countries that are officially in technical recession. Economic activity slowed during Q3 as private consumption recorded the weakest performance in the past five years and both exports and fixed investment contracted by 0.6 and 0.7% qoq, respectively.
- The plummeting confidence indicators show that the deterioration in the international economic situation will have a more widespread impact on the economy in the next months. Indeed, both the National Bank of Belgium's leading indicators and consumer confidence collapsed in November to their lowest level in 15 and 11 years respectively.
- In addition, households' purchasing power will be hit by deteriorating labour market conditions. As a matter of fact, net job creation, which had been a significant factor bolstering the economy in the last three years, is likely to dry up in 2009.
- After having climbed to a 25-year high in July 2008, inflation has decelerated steadily in the following months, easing back to 3.2% yoy in November 2008 thanks to the marked oil price decline in recent months. In addition, some downward pressure on prices is expected to come from the need for domestic firms to remain competitive. Most importantly, wage demands will not accelerate significantly in the near term given worsening outlook for labour market in Belgium and in neighbouring countries (to which wage increases are indexed).
- On 11th December the government came to an agreement on a recovery plan aiming at counteracting the effects of the crisis - the plan will total €2bn (0.6% of the GDP). This comes together with the measures that have already been announced by the two major Belgian regions, bringing the total amount to around €4bn. The plan includes significant reductions in social contributions and permanent increases in unemployment and other social benefits. In the wake of the bail-outs of the country's three largest banks, the government has also increased its guarantee of savings deposits.

BELGIUM



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

ITALY

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|------------|
| GDP (wda) | 0.7 | 1.9 | 1.4 | -0.9 Q3 |
| Industrial Production | -0.7 | 2.4 | -0.2 | -1.2 Oct** |
| Construction Investment | 0.8 | 1.7 | 2.0 | -1.2 Q3 |
| Consumer Prices - Harmonised Index*** | 2.2 | 2.2 | 2.1 | 2.7 Nov |
| Producer Prices*** | 4.0 | 5.6 | 3.5 | 5.2 Oct |
| Hourly Rates - Industry, excl.Construction*** | 2.7 | 3.3 | 2.8 | 3.2 Oct |
| Standardised Unemployment Rate (%) | 7.7 | 6.8 | 6.2 | 6.8 Q2 |
| Current Account Balance (€bn) | -23.6 | -38.5 | -37.4 | -43.4 Q2° |
| as a percentage of GDP | -1.7 | -2.6 | -2.4 | -2.8 |
| Real Effective Exchange Rate Index§ | 110.8 | 110.5 | 111.5 | 110.1 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) | 2.18 | 3.08 | 4.28 | 4.24 Nov |
| Long Term Interest Rate pa (benchmark 10y) | 3.56 | 4.05 | 4.49 | 4.74 Nov |
| Stock Exchange (MIBTEL) Index (% ch)* | 18.9 | 15.6 | 9.8 | -48.2 18/12/08** |

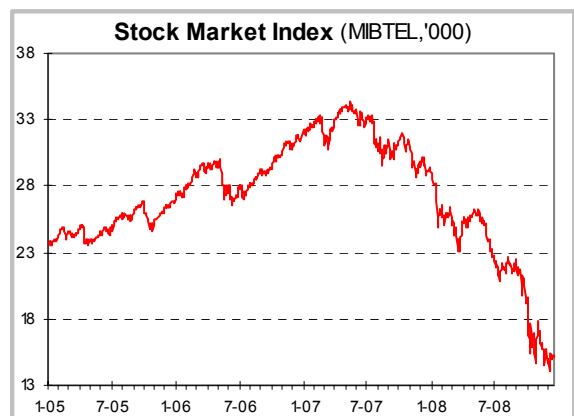
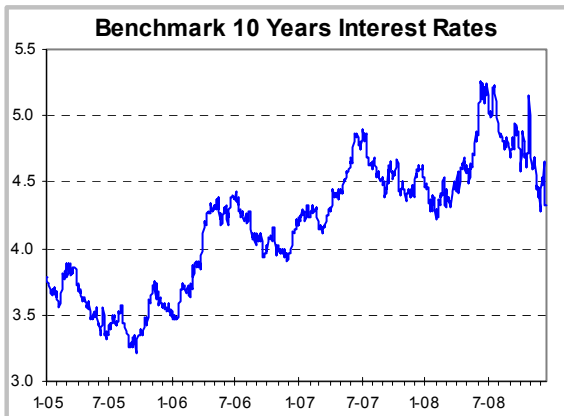
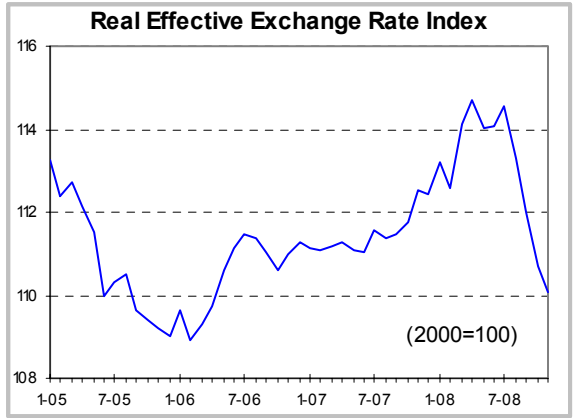
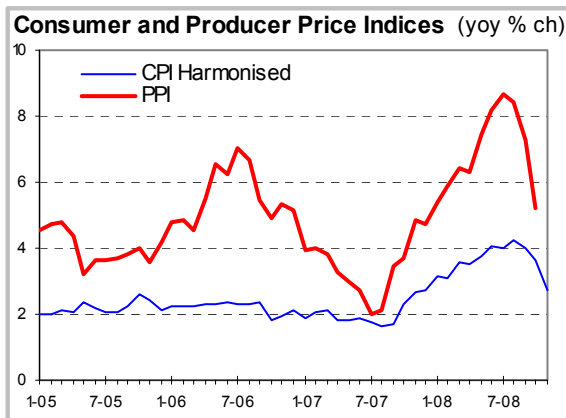
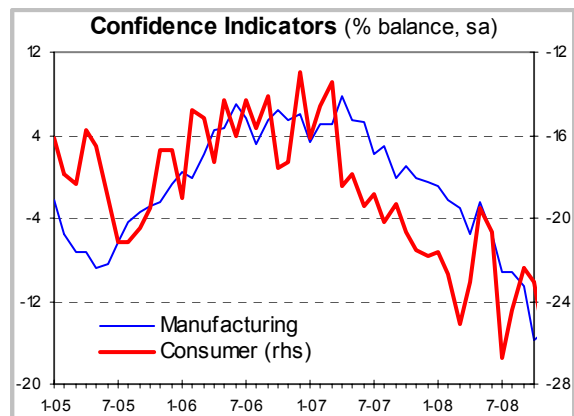
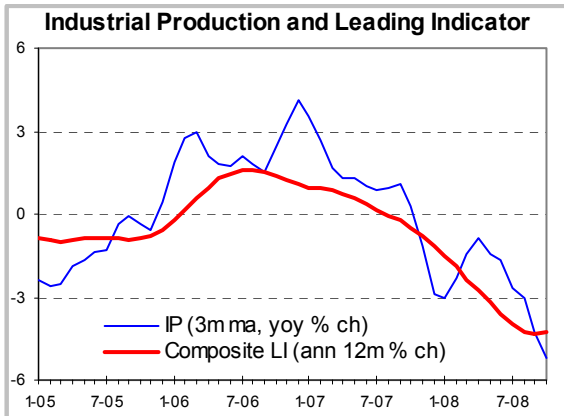
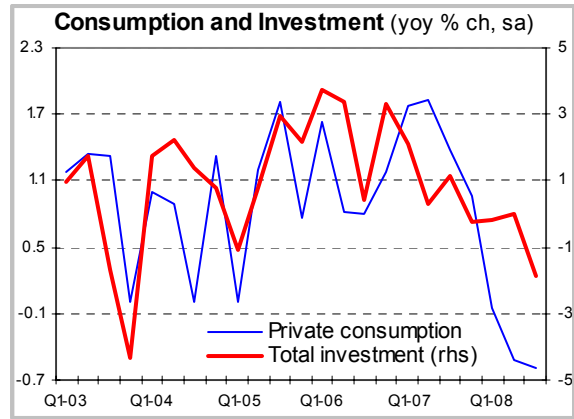
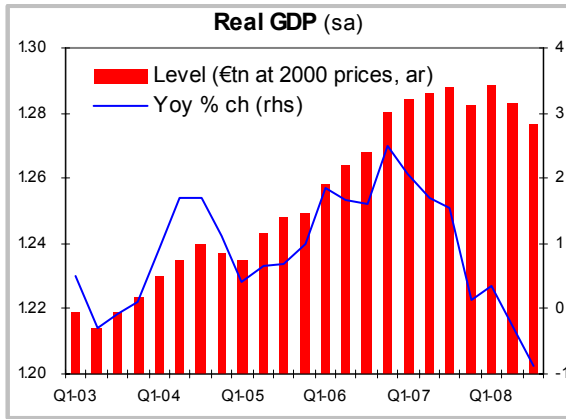
Notes:

* Average over year; ** % change on 31/12/07

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

- Similarly to Germany, Italy is officially in recession as qoq growth was negative in Q2-Q3 08. In particular, in the summer months GDP contracted sharply (-0.5% qoq), the steepest drop in almost a decade. Private consumption fell by 0.6% yoy albeit remaining virtually stable qoq (+0.1%) and investment contracted more widely, by 1.9% both yoy and qoq with machinery and equipment investment more badly hit (-3.5% qoq). Both import and export recorded negative growth rates. In the last two quarters the net external contribution turned negative as export fell more than import.
- On the supply side, the contraction comes primarily from the industrial sector including construction while within the service sector retail, hotels, transport and communication fell sharply too. The industrial sector is suffering acutely: the related index fell by almost 3% yoy in the first ten months of 2008 (-6.9% in October) and prospects remain gloomy for the coming months. The Italian electricity grid recently reported that electrical consumption for industrial uses was slashed by 30% in October and November. Output of steel and cars was particularly affected. As a matter of fact, car sales in Italy dropped by 29% yoy in November.
- The severity of the crisis in manufacturing is threatening employment with major firms temporarily shutting down activity and using social welfare instruments. In Q3 08 almost 173,000 full time equivalent jobs were lost, of which just over 10% in manufacturing and recent estimates project the overall unemployment rate above 8% next year.
- The government has recently launched a fiscal stimulus package as a response to the current crisis. In fact, it consists of a re-allocation of spending and revenue items so that its net effect is virtually neutral. The Ministry of Economy however points to the huge constraints imposed by Italy's debt burden. As a matter of fact, spreads on Italian/German bonds shot up to 135bp recently, up from 30bp a year ago. This however is also a reflection of higher bond supply by all governments in search of financing for helping out their respective economies and the relative preference for Germany as safer haven.
- Up until now, no Italian bank has looked for an emergency bail-out. Yet, the government has indicated on various occasions that it is ready to help with a sum in the range of €10-30bn.

ITALY



Sources: OECD, ISTAT, BIS, daily press

SPAIN

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|--------|------------|
| GDP (wda) | 3.6 | 3.9 | 3.7 | 0.9 Q3 |
| Industrial Production | 0.7 | 3.9 | 1.9 | -1.9 Oct** |
| Construction Investment | 6.1 | 5.9 | 3.8 | -5.8 Q3 |
| Consumer Prices - Harmonised Index*** | 3.4 | 3.6 | 2.8 | 2.4 Nov |
| Producer Prices - Manufacturing*** | 4.9 | 5.3 | 3.3 | 5.9 Oct |
| Hourly Earnings*** | 3.5 | 4.2 | 3.4 | 1.5 Q2 |
| Standardised Unemployment Rate (%) | 9.2 | 8.5 | 8.3 | 12.8 Oct |
| Current Account Balance (€bn) | -66.9 | -87.7 | -105.9 | -109.4 Q3° |
| as a percentage of GDP | -7.4 | -8.9 | -10.1 | -10.0 |
| Real Effective Exchange Rate Index [§] | 114.4 | 115.9 | 118.0 | 119.0 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) | 2.18 | 3.08 | 4.28 | 4.24 Nov |
| Long Term Interest Rate pa (benchmark 10y) | 3.39 | 3.78 | 4.31 | 4.15 Nov |
| Stock Exchange (MSE) Index (% ch)* | 23.3 | 24.9 | 23.1 | -40.0 18/12/08** |

Notes:

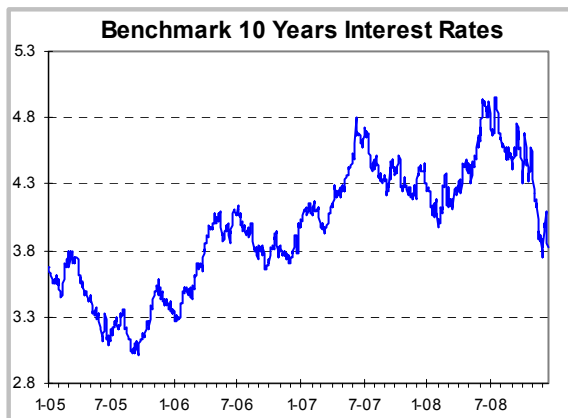
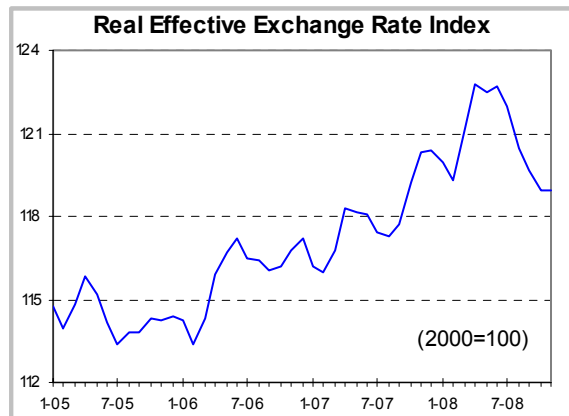
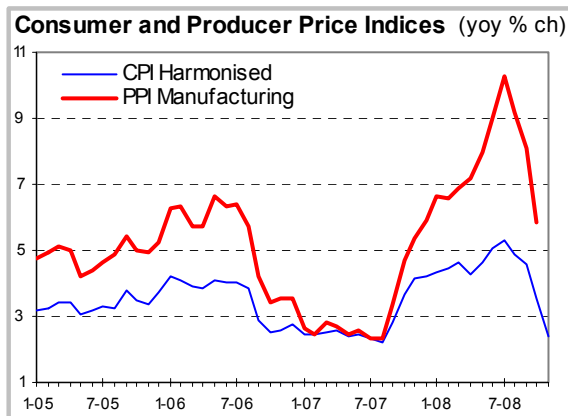
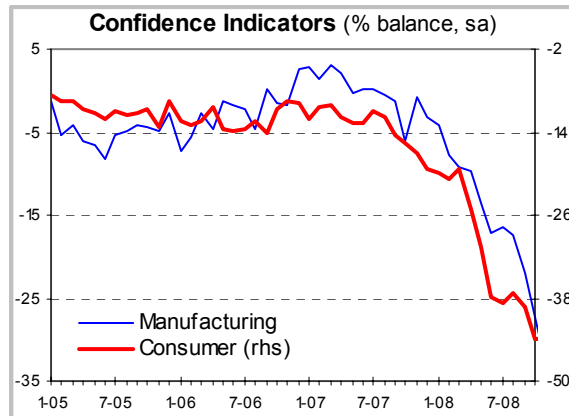
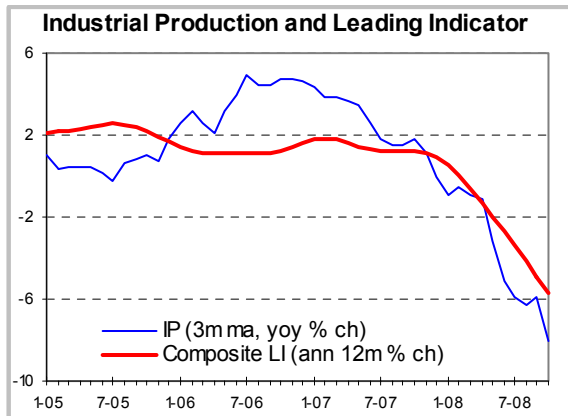
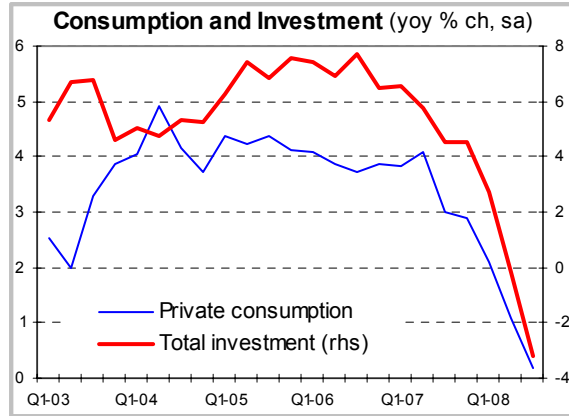
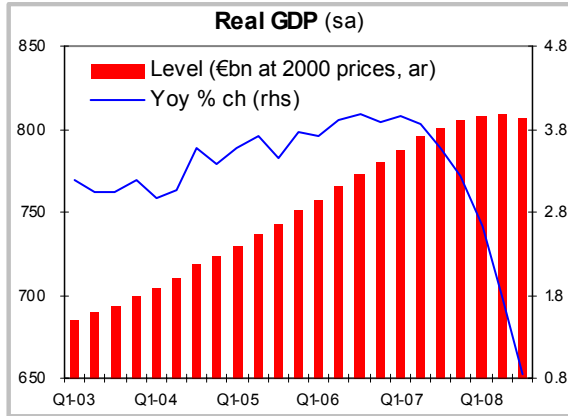
* Average over year; ** % change on 31/12/07

Sources: OECD, INE, BIS, daily press

- GDP contracted by 0.9% yoy in Q3 08, recording its weakest performance since early 1995. The breakdown of GDP data reveals a marked contraction in domestic demand (-1.9% qoq and -3.2% yoy), hurt by fading consumer spending and faltering construction activity.
- The latest indicators suggest that the economy is heading for another contraction in the final quarter of 2008. The Spanish manufacturing purchasing managers' index shows that activity contracted at a brisker rate in November. This is also evident in recent hard data for industrial production, which plummeted by 12.8% yoy in October, the largest decline since the data series began in the early '90s.
- In addition, consumer confidence deteriorated in November, reflecting strong discontent about the state of the economy, particularly the falling property market and rising unemployment (more than 11%, the highest in Europe).
- In an attempt to help the country deal with the recession, the government is pursuing a strongly expansionary fiscal policy. In April it approved measures valued at €18bn (1.8% of GDP) to boost public infrastructure investment and alleviate the tax burden for this year and the next. In August, it unveiled a package of 24 measures, aimed mainly at financing small and medium-sized enterprises (€10bn or 1% of GDP) and helping to stimulate the housing sector (€5bn or 0.5% of GDP). In September it announced two new measures to mitigate the impact of the construction downturn (€3bn or 0.3% of GDP) and in early October the creation of a major support programme for its banks (a fund of €50bn to buy assets from banks that need liquidity and up to €100bn to underwrite new bank debt). In November the government presented three separate packages worth €11bn (1.1% of GDP) aimed at creating 300,000 jobs and supporting strategic sectors as the motor industry and local public works.
- Consumer inflation retreated again in November. On a national basis, the annual rate dropped to a 13-month low of 2.4%, compared to 3.6% in October. The headline rate is projected to ease back further in the next months. Crucially, wage inflation should ease after spiking in 2008, restrained by a rapidly deteriorating labour-market outlook. In addition, strong competition on the high street in the face of very sluggish consumer spending should help to contain the prices of durable goods.

n. 3 - December, 22nd 2008

SPAIN



Sources: OECD, INE, BIS, daily press

GREECE

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|------------|
| GDP | 3.9 | 4.1 | 4.0 | 3.1 Q3 |
| Industrial Production | -0.7 | 0.6 | 2.0 | -2.2 Sep** |
| Construction Investment | 0.6 | 5.8 | 1.6 | |
| Consumer Prices - Harmonised Index*** | 3.5 | 3.3 | 3.0 | 3.0 Nov |
| Producer Prices – Manufacturing*** | 5.4 | 6.4 | 2.7 | 4.0 Oct |
| Standardised Unemployment Rate (%) | 9.9 | 8.9 | 8.3 | 7.2 Q3 |
| Current Account Balance (€bn) *** | -14.4 | -23.8 | -32.4 | -35.9 Q3° |
| as a percentage of GDP | -7.3 | -11.1 | -14.2 | -14.9 |
| Real Effective Exchange Rate Index [§] | 113.2 | 113.9 | 116.2 | 118.0 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 | 2.18 | 3.08 | 4.28 | 4.24 Nov |
| Long Term Interest Rate pa (benchmark 10y) | 3.59 | 4.07 | 4.50 | 5.09 Nov |
| Stock Exchange (ASE) Index (% ch)* | 29.4 | 26.8 | 22.2 | -66.4 18/12/08** |

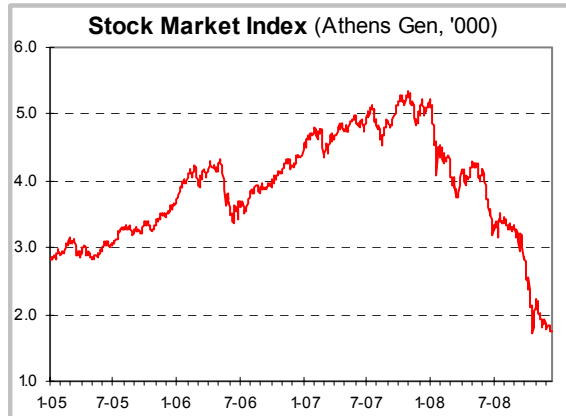
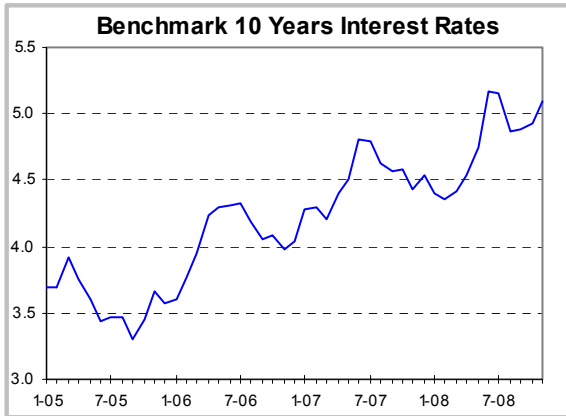
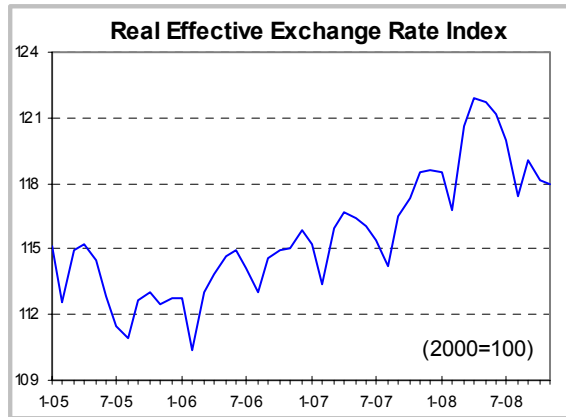
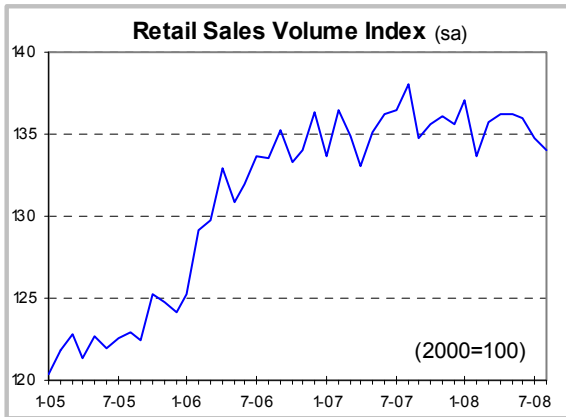
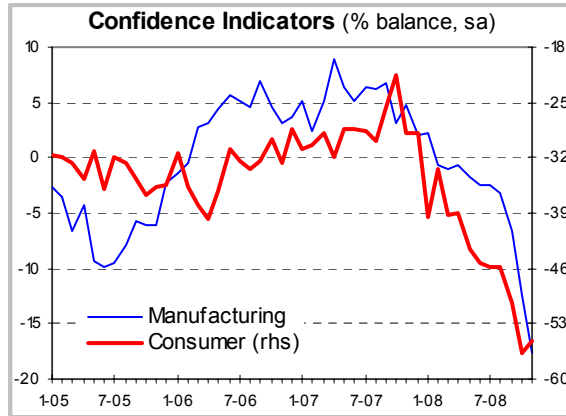
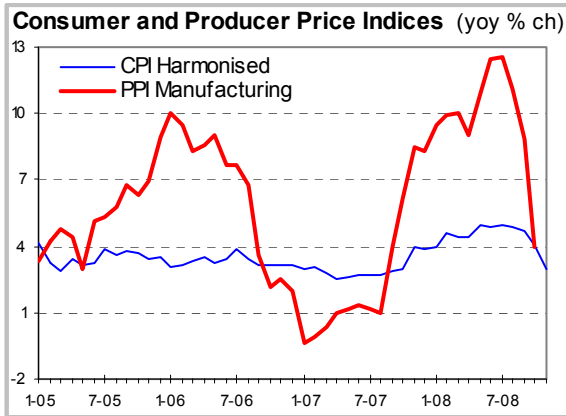
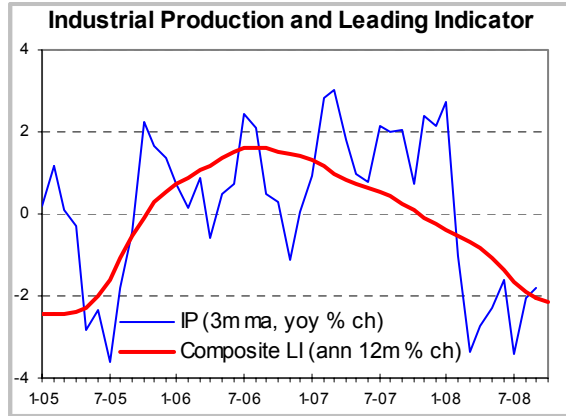
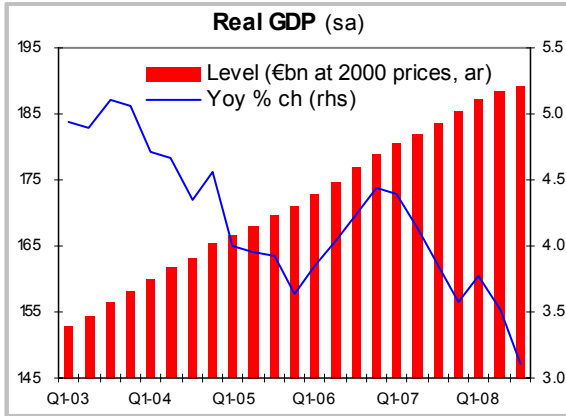
Notes:

* Average over year; ** % change on 31/12/07

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

- GDP rose by 0.4% qoq in Q3 08, the lowest figure recorded since Q1 00. Consumer spending contracted by 0.4% qoq. Nevertheless, the contraction in consumption was limited when compared with the fall in real investment spending which plunged for the fourth successive quarter, by a massive 2.7% qoq. Low business confidence, tighter credit conditions, falling capacity utilisation levels, and weak sentiment in the housing market are all taking their toll.
- Growth during the third quarter could have been much worse had imports not contracted as much as they did. Specifically, real imports plummeted by 12.7% qoq, the sharpest quarterly fall for at least eight years. Exports also fell, although by a far lesser amount (0.4% qoq).
- Consumer confidence is expected to remain low, while softer activity is set to impact on firms' employment decisions. Therefore, the labour market is unlikely to be as supportive of consumption as it has been during recent times.
- The crisis is hitting two of Greece's most important sectors: shipping and tourism. The marked weakening of global trade has translated into unprecedented falls in freight rates, and the situation is not likely to improve in the near term. Furthermore, activity in the tourist sector is also set to be weighed down by fewer arrivals from European countries. Moreover, the recent riots in Athens may damage the image of the country abroad.
- Inflation stood at 3.0% yoy in November (down from 4.0% in October). Lower oil prices, combined with weaker domestic demand and favourable base effects, should continue to ease price pressures during the coming months. However, the fall in prices will be contained somewhat by the intrinsic rigidities in domestic markets.
- In November, the Greek government, in order to restore confidence in the banking sector and to keep credit flowing to small and medium-sized businesses, adopted a bank support scheme amounting to €28bn (over 12% of GDP). The measures include bank capital injections via the sale of preferred shares to the state (€5bn), guarantees for bank borrowing in the markets (€15bn), and direct liquidity injection through the issue of bonds (€8bn).
- However, the large budget deficit and national debt gives the government less scope to inject new funds particularly in the light of the recent spike in the spread between Greek and German treasury bonds.

GREECE



Sources: OECD, BIS, European Commission

BULGARIA

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|-----------|
| GDP | 6.2 | 6.3 | 6.2 | 6.8 Q3 |
| Gross Fixed Capital Investment | 23.2 | 14.7 | 21.7 | 22.3 Q3 |
| Industrial Production - Manufacturing | 8.1 | 7.3 | 8.3 | -1.6 Oct |
| Consumer Prices | 5.0 | 7.3 | 8.4 | 9.1 Nov |
| Producer Prices - Manufacturing | 7.2 | 6.3 | 7.6 | 10.6 Oct |
| Unemployment Rate (%) | 11.5 | 9.6 | 7.7 | 5.9 Oct |
| Current Account Balance (US\$bn) | -3.3 | -5.7 | -8.7 | -11.7 Q3° |
| as a percentage of GDP | -12.4 | -17.8 | -21.8 | -23.7 |
| Real Effective Exchange Rate Index [§] | 121.1 | 126.5 | 134.3 | 148.6 Nov |

Notes:

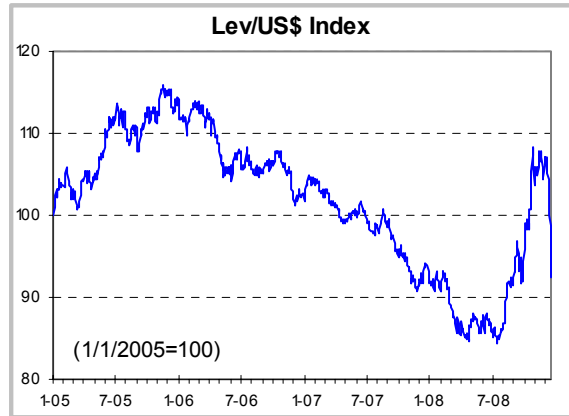
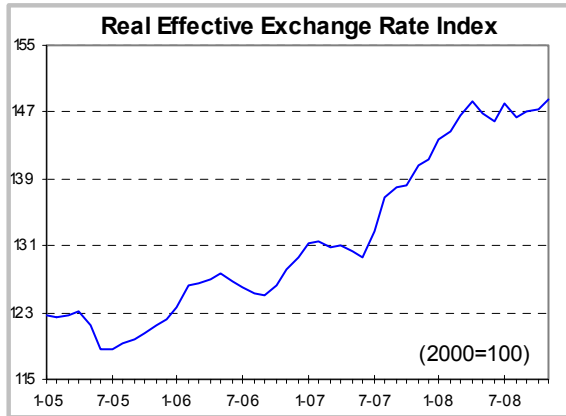
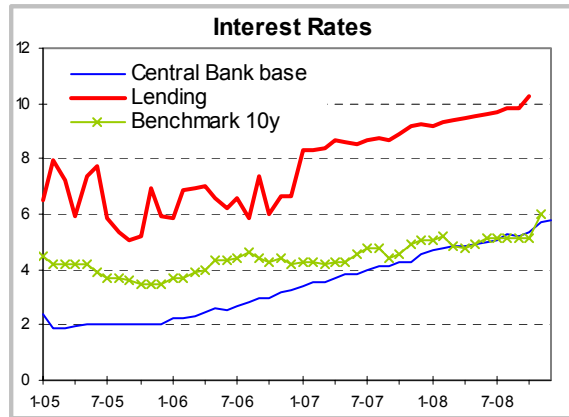
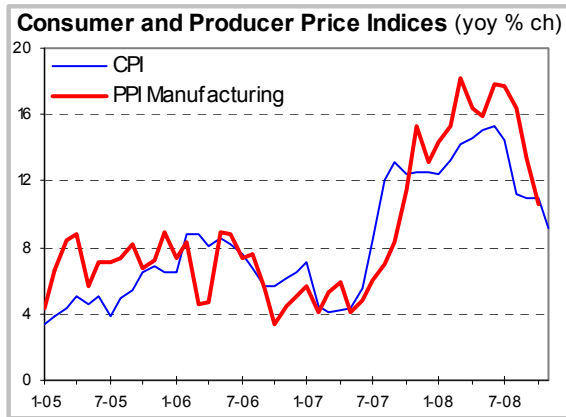
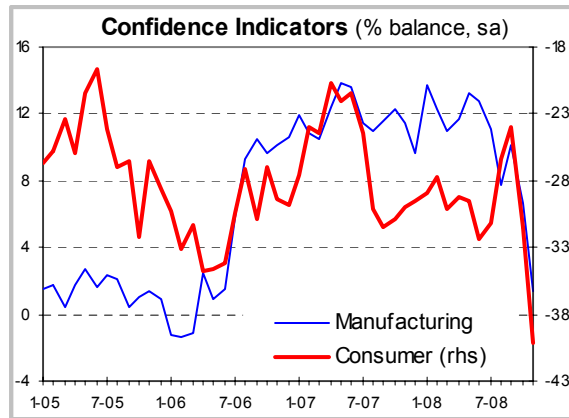
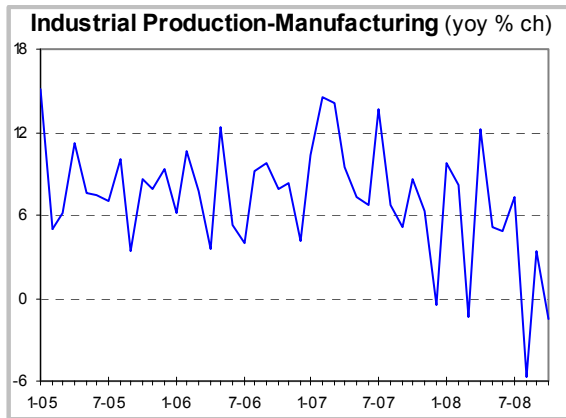
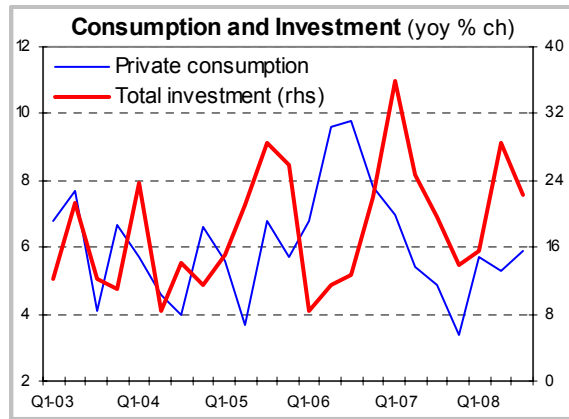
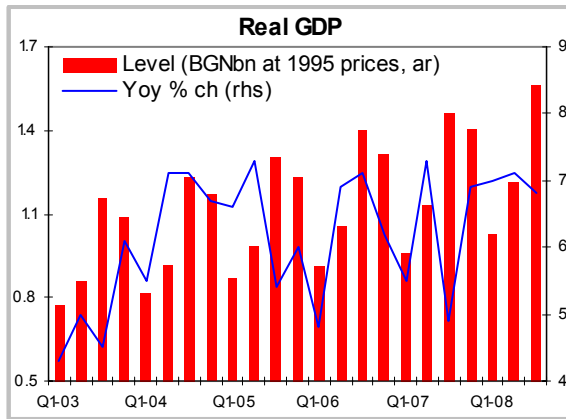
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2000=100

| Financial Indicators | | | | |
|--|-----|-----|-----|---------|
| Short Term Interest Rate pa (sofibor o/n) | 2.1 | 2.9 | 4.1 | 5.9 Oct |
| Short Term Interest Rate pa (sofibor 3m) | 3.6 | 3.7 | 4.9 | 7.7 Oct |
| Long Term Interest Rate pa (benchmark 10y) | 3.9 | 4.2 | 4.5 | 6.0 Nov |

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

- The Bulgarian economy slowed down marginally in Q3 08 (+6.8% yoy) after having shown signs of overheating in H1. The strong growth recorded in Q1-Q3 partly rests on the substantial rebound in agriculture from last year disastrous harvest while industrial value added has continuously decelerated. Both private consumption and fixed capital expenditures remained vibrant in Q3 08 but the sharp plunge in confidence levels in October and November, which reflected the concern over a darkening economic horizon, bodes ill for the ongoing quarter and the next few ones.
- The worsening global environment has started to bite net exports. Exports slowed to 3.8% yoy from 6.9% in H1 08, reflecting a more difficult environment in key export markets, while imports slowed more significantly to 4.2% yoy compared with 9.9% yoy in H1 08.
- The current account deficit continued to widen in Q3 08 almost entirely due to the trade deficit which in turn was inflated by still high oil and gas prices. Albeit remaining alarmingly high, the cumulative twelve months current account ratio to GDP decreased for the first time since 2004 and should continue to do so thanks to lower import (both in volume and value).
- Bulgaria's foreign position is somewhat worrying. The external deficit has been so far financed by large direct investment (FDIs) inflows which have however started to dwindle in the context of the global financial crisis and the availability and cost of new financing is becoming increasingly problematic. The government has been running a very austere fiscal policy in order to prevent further worsening of the external imbalance. Thus, large fiscal reserves have been accumulated while the request for IMF financial cushion (Bulgaria is not currently under IMF support programme) cannot be ruled out in case of an abrupt drying up of external financing.
- Inflationary pressures have started to abate with consumer price inflation coming down to 9.1% from the peak in June of 15.3% on the back of weaker fuel and food prices.
- The European Commission announced in November that Bulgaria will lose €220mn allocated to it under the EU's Phare programme (focused on infrastructure). The Commission froze the money in February because of its concerns about irregularities in spending and a perceived lack of sound financial management. Bulgaria stands to lose more EU funding unless it addresses the Commission's concerns over fraud and maladministration.

BULGARIA



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

EGYPT

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|------|------|------|----------|
| GDP | 5.6 | 7.0 | 7.3 | 5.8 Q3 |
| Construction Production (Gross Value Added) | 10.3 | 10.7 | 16.2 | 9.5 Q3 |
| Consumer Prices | 4.9 | 7.6 | 9.3 | 20.3 Nov |
| Producer Prices** | | | | 16.9 Oct |
| Unemployment Rate (%) | 11.0 | 10.7 | 9.0 | 8.4 Q2 |
| Current Account Balance (US\$bn) | 2.0 | 2.5 | 0.2 | 0.9 Q2° |
| as a percentage of GDP | 2.1 | 2.1 | 0.2 | 0.6 |
| Real Effective Exchange Rate Index [§] | 72.7 | 75.8 | 79.7 | 80.5 Dec |

Notes:

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

| Financial Indicators | | | | |
|--|-------|--------|------|-----------------|
| Discount Rate (end of period) | 10.0 | 9.0 | 9.0 | 11.5 Oct |
| Short Term Interest Rate pa (91 days T-Bill) | 9.5 | 8.8 | 7.6 | 13.2 Oct |
| Stock Exchange (HERMES) Index (% ch)* | 169.4 | 10.7** | 29.2 | -55.1 18/12/08° |

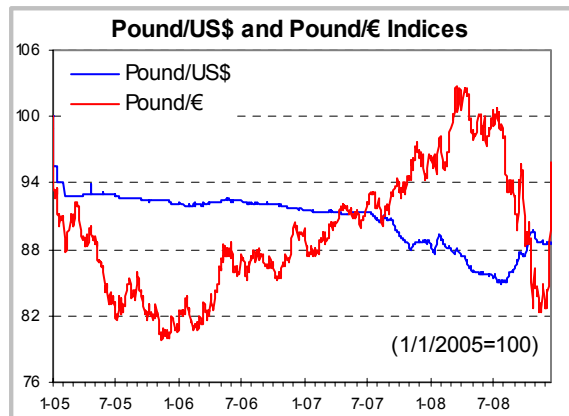
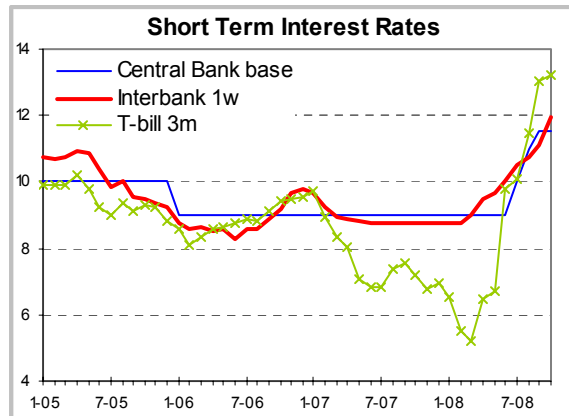
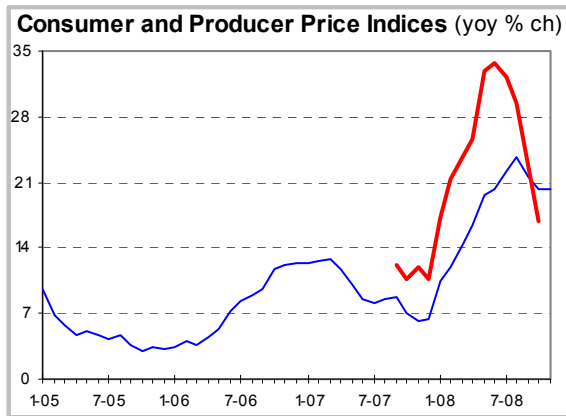
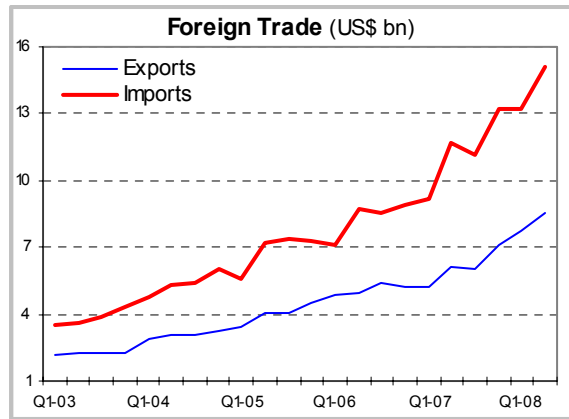
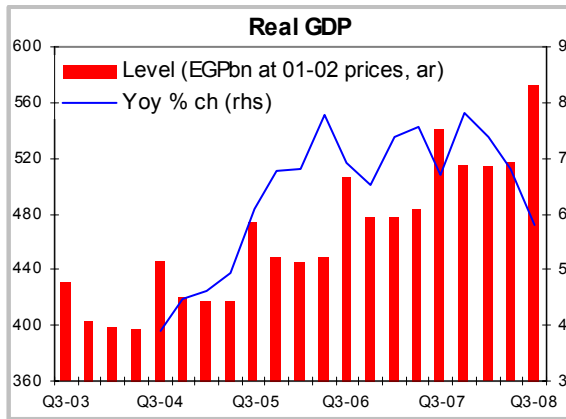
Notes:

* Average over year; CSE Index for 2005, new series starting from 01/01/2006: HERMES Index; ** yoy % ch at year-end; ° % change on 31/12/07

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

- According to preliminary data GDP growth slowed to 5.8% yoy in Q3 08 down from 6.8% in Q2 initially on the back of rising inflation (which peaked at 23.6% yoy in August) and then of increased uncertainty caused by the global financial crisis. The only sectors holding up well were oil and gas, tourism and telecommunications which all grew at rates around 9-10%. Private consumption dampened to 5.1% yoy from 7.6% in Q2 as also witnessed by the September plunge in car sales (-2% yoy compared to 39% yoy in June) and by weak white goods and cigarette sales.
- Early indications point to deterioration in the fiscal balance, as the government steps up spending to shore up economic growth. Between July and September the deficit came in at around 8.3% of GDP. The government has announced that an additional EGP5bn (US\$920mn) would be allocated to the state's planned infrastructure projects. It is also considering cuts in some import tariffs and the reduction of a limited number of indirect taxes while the introduction of the VAT will likely be postponed until FY2010/11. In addition, the trade and industry minister has promised to cap energy prices for Egyptian industry, postponing the second phase of a long-standing plan aimed at gradually eliminating subsidies on electricity and natural gas.
- Tourism and the Suez Canal trade have not shown significant signs of weakening so far but they both look set to fall on the back of the global economic slowdown. In addition, a new unforeseen risk has emerged: piracy in the Gulf of Aden could hurt revenues from the Canal. As a consequence, the current account is set to turn to deficit.
- Overall, the balance of payment is also heading towards a deficit due to the ongoing capital outflows. There has been significant portfolio capital outflow this year which, according to some estimates, reached around US\$7bn in Q3 08 and funds continued to flow out in October and November as witnessed by the sharp fall in the stock exchange index (over 60% since April's peak) and by increased turbulence in the currency market.
- Inflation remains high but has started to moderate at the consumers' level with two consecutive monthly negative numbers (albeit small at 0.1%). The deceleration in price dynamics is much more evident at the producers' level where inflation fell from a peak of 33.7% in June to 16.9% in October. This could pave the way for a change in monetary policy as early as by end-December.

EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|------|------|------|----------|
| GDP | 3.0 | 7.8 | 2.7 | 6.4 Q3 |
| Construction Production (Gross Value Added) | 5.9 | 7.9 | 10.2 | 11.2 Q3 |
| Industrial Production | 2.6 | 3.7 | 4.7 | 2.5 Q3 |
| Consumer Prices | 1.0 | 3.3 | 2.0 | 3.9 Nov |
| Producer Prices - Manufacturing | 9.1 | 5.9 | 1.8 | 16.4 Oct |
| Urban Unemployment Rate (%) | 18.4 | 15.5 | 15.4 | 15.5 Q3 |
| Current Account Balance (US\$bn) | 1.1 | 1.4 | -0.1 | -2.1 Q2° |
| as a percentage of GDP | 1.9 | 2.2 | -0.1 | -2.5 |
| Real Effective Exchange Rate Index [§] | 91.8 | 92.9 | 92.6 | 91.9 Sep |

Notes:

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

| Financial Indicators | | | | |
|-------------------------------------|------|------|------|------------------|
| Short Term Interest Rate pa | 2.8 | 2.6 | 3.3 | 3.7 Nov |
| Stock Exchange (MASI) Index (% ch)* | 10.9 | 57.2 | 55.1 | -11.8 18/12/08** |

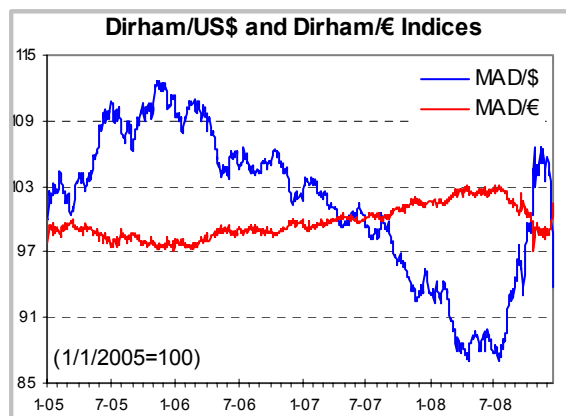
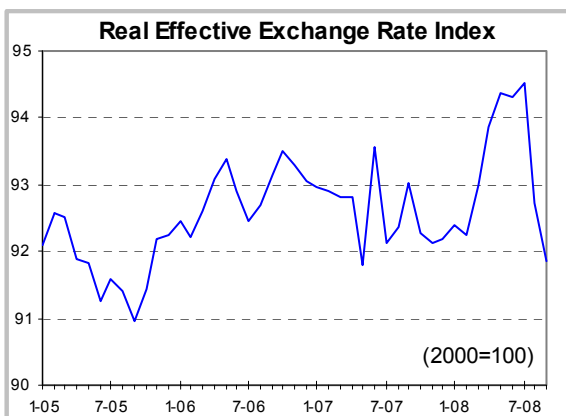
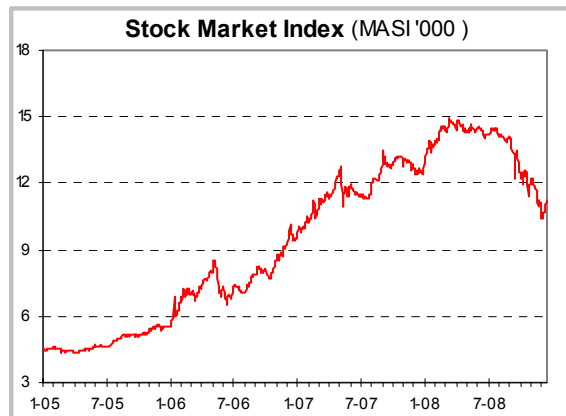
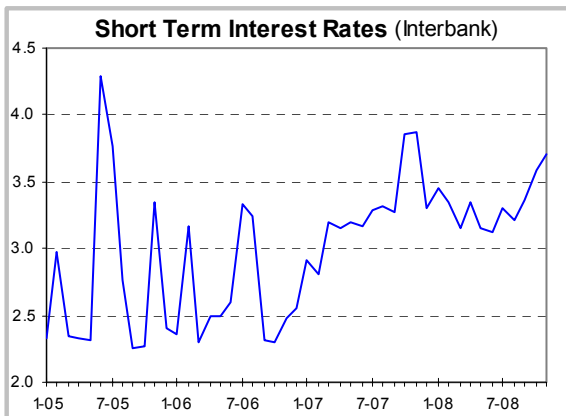
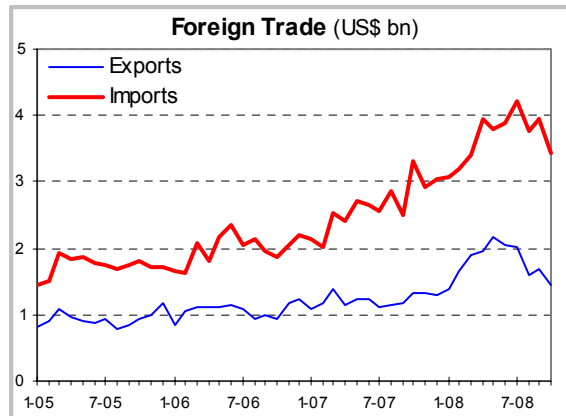
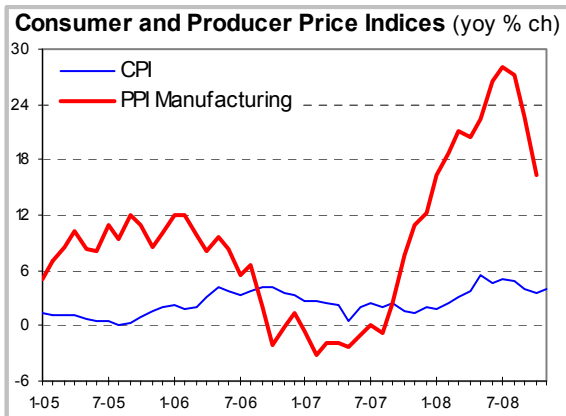
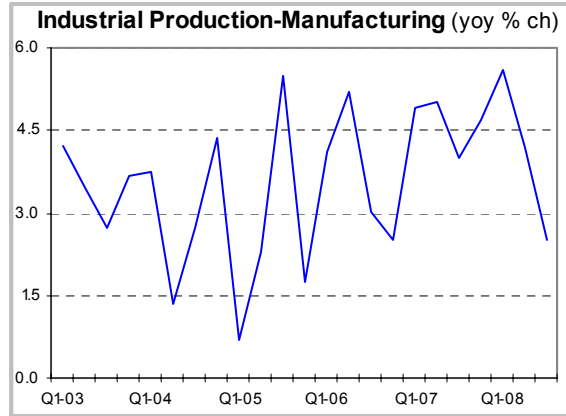
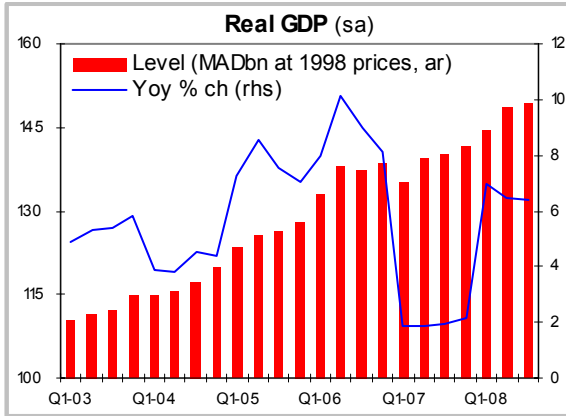
Notes:

* Average over year; ** % change on 31/12/07

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

- Despite the unfavourable external environment the Moroccan economy held up well in Q3 08 when, according to preliminary data, GDP recorded an only marginally lower rate of growth than in Q2 08. Detailed data are available up to Q2, however, and show a rebound in agriculture along with double-digit growth in telecommunications, construction, and financial services. Agriculture has been recovering from the 2007 drought and grew by 11.2% yoy in Q2 (vs. -21.6% in Q2 07).
- For Q3 08 available indicators point to a still robust industrial performance, along its trend growth rate of around 4.5% and to continuing strength in agriculture and construction, albeit for the latter signs of moderation are emerging. Domestic demand remains vigorous thanks to government infrastructure investment, to still positively oriented business investment, and to a substantial increase in wages last July which in turn sustains consumption.
- The global crisis is set to hit Morocco via lower migrants' remittances, slower export and weaker tourist inflows which in turn will hurt private consumption. Latest foreign trade data confirm the marked deceleration in imports (also thanks to lower oil prices) and a slowdown in exports.
- The Moroccan government increased some fuel prices on last July to offset the rising costs of imported crude oil. Concerns on inflation and on negative real interest rates have prompted the Central Bank to raise the policy rate by 25bp to 3.5% in late September. In fact, as commodity prices have steeply fallen since last summer also inflation has somewhat receded.
- Data for the H1 08 suggest that the fiscal deficit for the whole year will undershoot the official target of 3% because of a strong increase in tax receipts, particularly corporate tax revenues (which rose by 74% yoy in H1 08). Tax penetration is also improving, with a reduction in both tax exemptions and tax evasion.
- Compared to other emerging countries the Moroccan stock exchange has suffered less albeit losing about 1/3rd since mid-March, when it was at its highest. The *dirham* has followed in part the euro's fortunes since last summer thus first devaluing around 20% against the US\$ and appreciating by approximately 4% vis-à-vis the euro, and now reverting these trends as the euro gets stronger again.

MOROCCO



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

TURKEY

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|-------------|
| GDP** | 8.4 | 6.9 | 4.6 | 0.5 Q3 |
| Industrial Production** | 5.4 | 5.9 | 5.3 | -2.5 Oct*** |
| Construction Investment | 10.9 | 17.8 | 6.0 | -3.4 Q3 |
| Consumer Prices | 8.2 | 9.6 | 8.8 | 10.8 Nov |
| Producer Prices - Manufacturing | 7.6 | 9.3 | 5.6 | 10.7 Nov |
| Unemployment Rate (%) | 10.2 | 9.9 | 9.8 | 10.3 Sep |
| Current Account Balance (US\$bn)** | -22.1 | -31.9 | -37.7 | -47.0 Q3° |
| as a percentage of GDP | -4.6 | -6.0 | -5.7 | -6.0 |
| Real Effective Exchange Rate Index [§] | 108.1 | 107.3 | 116.7 | 112.1 Nov |

Notes:

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

| Financial Indicators | | | | |
|-------------------------------------|------|------|------|------------------|
| Short Term Interest Rate pa (o/n) | 14.8 | 15.6 | 17.2 | 16.6 Nov |
| Stock Exchange (IMBK) Index (% ch)* | 47.9 | 35.5 | 21.1 | -52.5 18/12/08** |

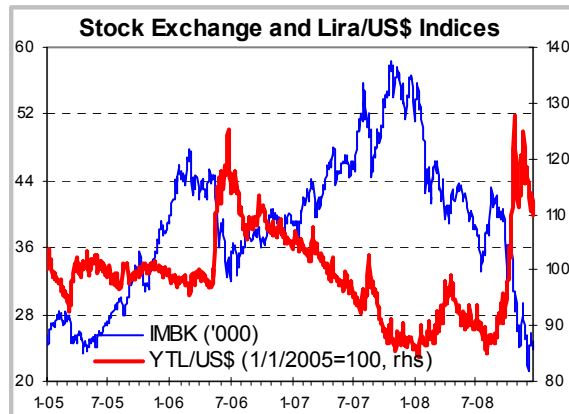
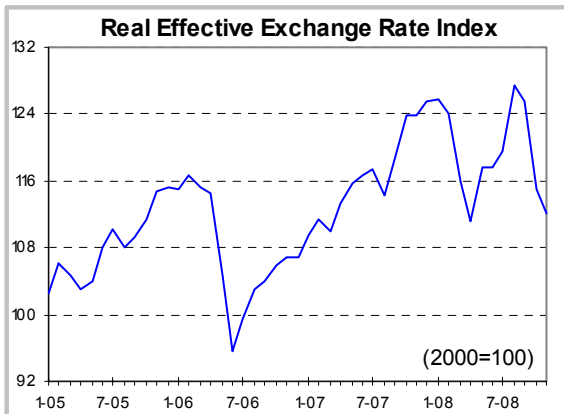
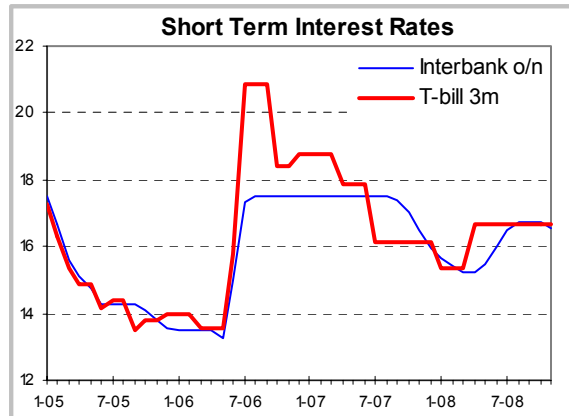
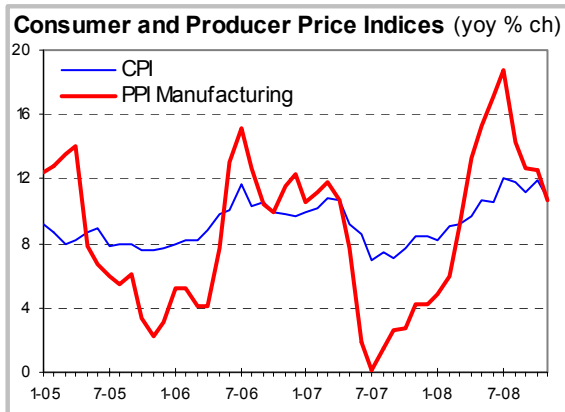
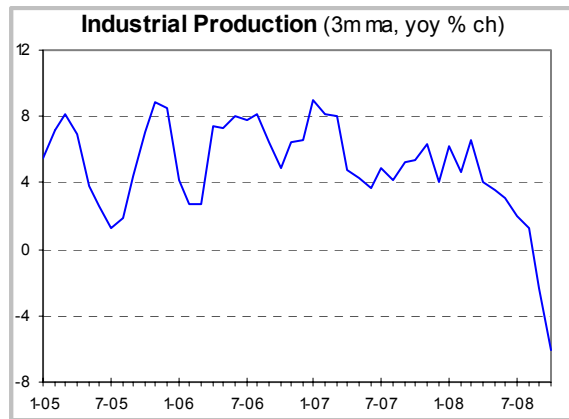
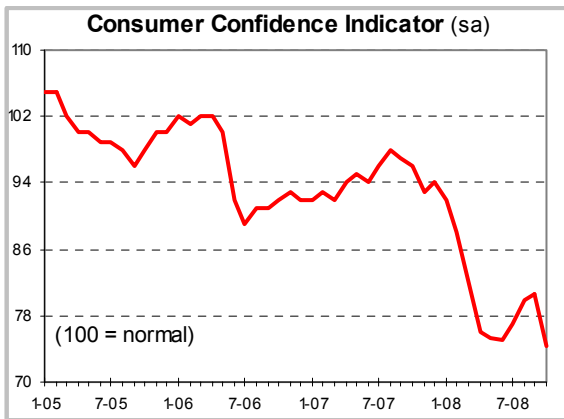
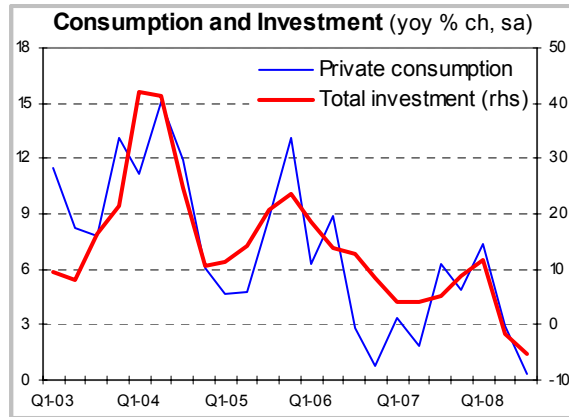
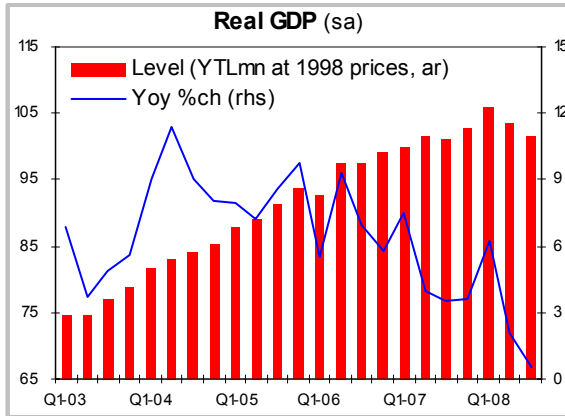
Notes:

* Average over year; ** % change on 31/12/07

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

- The latest national accounts data signal a sharp deterioration in the Turkish economy which grew by only 0.5% yoy in Q3 08 (down from 6.7% and 2.3% in Q1 and Q2, respectively). Domestic demand weakened sharply with consumption almost stagnating and investment dropping by 5.4% yoy. Private investment in particular fell sharply (-10% yoy) both in machinery/equipment and in construction (-8.4% and -12.8%, respectively) while the net external drag narrowed considerably.
- The weaker domestic demand is pushing down imports which decelerated sharply over the past months turning negative in yoy terms last October in both value, also due to falling international commodity prices, and volume terms. Exports are suffering too from faltering external demand and the yoy fall recorded last month, albeit following a record high September, is heralding a tough period ahead for exporters.
- As imports contracted more than exports the trade deficit narrowed in September together with the current account deficit. The latter however remains still too high and the financing gap unsustainable. The healthy financing in the form of foreign direct investment inflow has deteriorated since April 2008 and will likely continue to do so while net portfolio flows remain negative. This has been reflected in the fall in the stock exchange and the sharp devaluation of the lira over the past few months and show that Turkey's financial soundness is at risk.
- In two successive surprise moves, on November 19th and just a month later, the Central Bank of Turkey (CBT) cut its reference policy rate by 175bp down to 15% citing faster decelerating inflation than expected and concerns on the ailing economy. The move surprised because of the still high inflation and the ongoing turmoil regarding the *lira*. In fact, the latest inflation figures for November confirm the CBT conviction as price pressures loosened considerably while the real economy keeps sending worrying signals. In any case, the CBT has clearly spelled out that any new data changing the inflation outlook may lead to a revision in the policy stance.
- Although officially the Turkish government has not made a formal request for help to the IMF, talks are continuing. According to local sources a deal may be signed by the end of the year or soon afterwards and may include funding of up US\$20bn. The government is undergoing intense criticism for denying the severity of the economic downturn thus delaying an IMF deal to secure its external financing needs, and for failing to deliver a significant economic stimulus package. This delay is largely due to the government's unwillingness to revise its growth target and cut spending ahead of local elections in March.

TURKEY



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

THAILAND

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|------|-------|-------|-----------|
| GDP | 4.5 | 5.1 | 4.8 | 4.1 Q3 |
| Industrial Production – Manufacturing | 9.1 | 7.3 | 8.2 | 0.0 Oct** |
| Construction Investment | 6.0 | 4.0 | 2.0 | -3.7 Q3 |
| Consumer Prices*** | 4.5 | 4.6 | 2.2 | 2.2 Nov |
| Producer Prices*** | 9.1 | 7.1 | 3.2 | 1.9 Nov |
| Unemployment Rate (%)*** | 1.9 | 1.5 | 1.4 | 1.1 Sep |
| Current Account Balance (US\$bn) | -7.6 | 2.3 | 14.0 | 5.4 Q3° |
| as a percentage of GDP | -4.3 | 1.1 | 5.7 | 2.0 |
| Real Effective Exchange Rate Index [§] | 97.0 | 105.3 | 111.5 | 109.9 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) | 2.6 | 4.6 | 3.8 | 3.6 Nov |
| Stock Exchange Index (Bangkok) (% change)* | 4.1 | 4.2 | 6.5 | -47.4 18/12/08** |

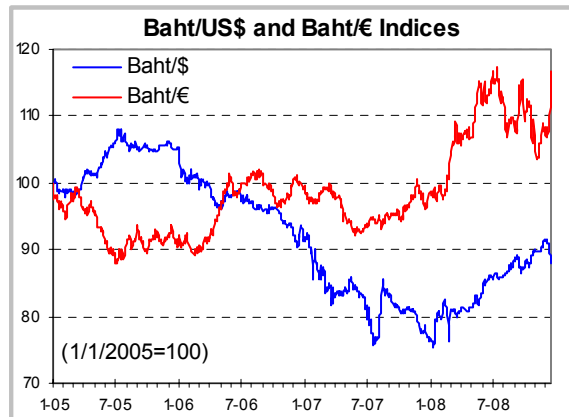
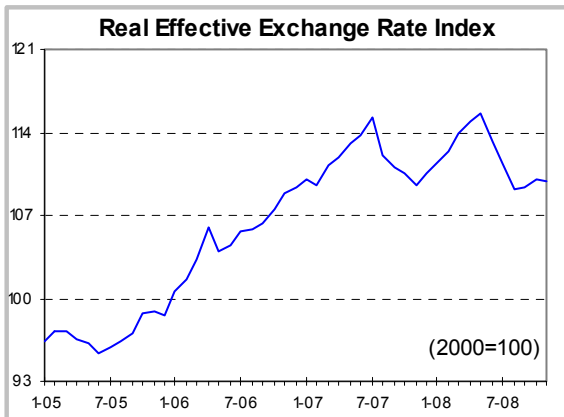
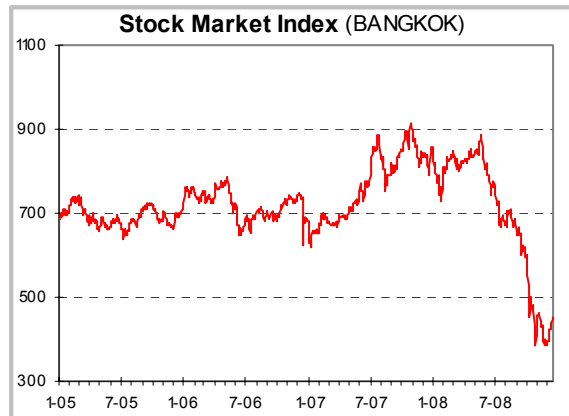
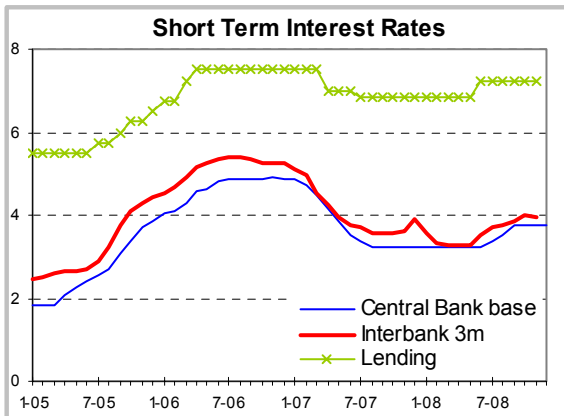
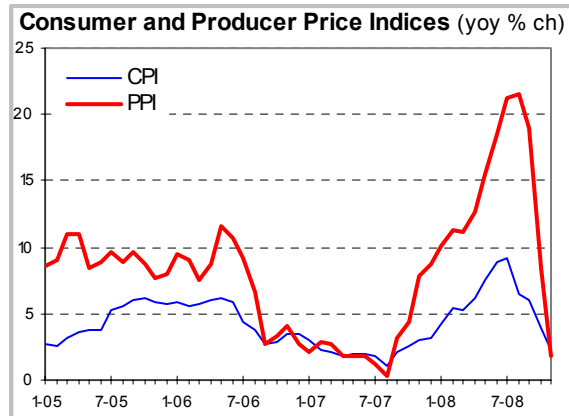
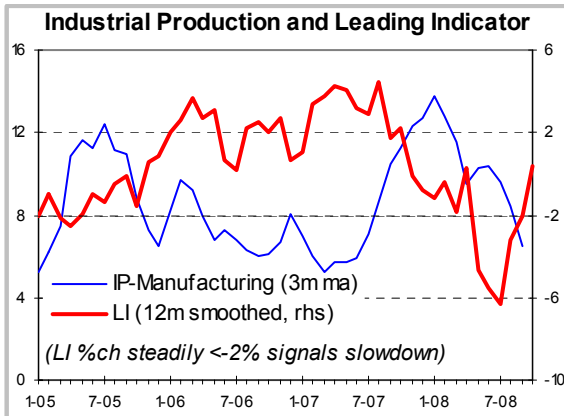
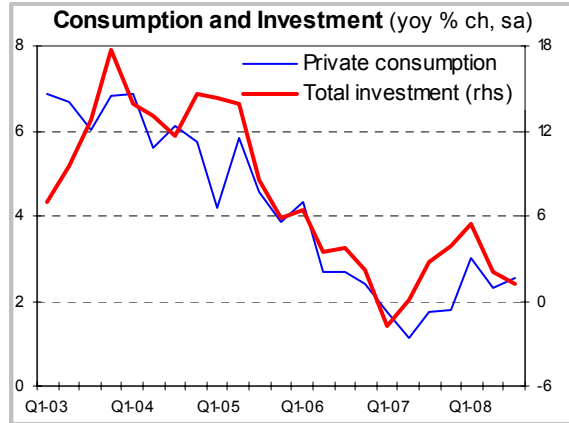
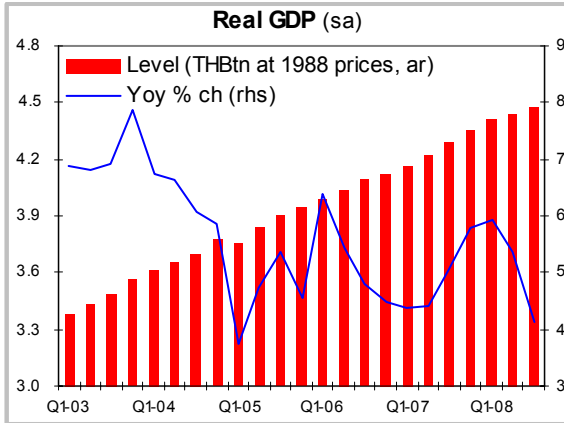
Notes:

* Average over year; ** % change on 31/12/07

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

- National accounts data for Q3 08 showed that real GDP expanded by 4.0% yoy, slowing from +5.3% yoy in Q2 on the back of a deteriorating trade sector. Indeed, net exports grew by only 0.3% yoy after expanding by 18.3% yoy in the previous quarter. On the domestic front, activity was hindered by ongoing political turmoil, with total investment decelerating in Q2 from 1.9% to 0.6% yoy.
- The latest data suggest that the economy has entered the fourth quarter on an even weaker pace. As a matter of fact, the manufacturing index has recorded its lowest level so far this year, while consumer confidence plunged in November.
- Recently, following weeks of public protests, the Constitutional Court ordered the Prime Minister Somchai to step down, which helped to bring an end to widespread demonstrations. Thailand's next Prime Minister will be the leader of the opposition Democrat Party (DP), according to the results of a parliamentary vote on December 15th. This completes a dramatic reversal of Thailand's political scene in just under a fortnight. However, the above does not mean that Thailand's political scenario is on the verge of returning to stability. Indeed, the transfer of power - which took place without an election - is controversial, and the new Prime Minister has only a slim parliamentary majority. His position could be weakened if the outgoing government performs well in byelections scheduled for January 11th. As such, any come back of instability could delay the passing of any fiscal stimulus plan needed to spur economic activity.
- Favourable November inflation data provided some relief to policymakers. As a matter of fact, price rises moderated to a 14-month low of 2.2% yoy in November as lower oil prices helped to offset a rise in food costs caused by floods in key agricultural areas. In light of moderating inflation, the central Bank of Thailand cut its leading interest rate by an unexpectedly full percentage point to 2.75% (a three-year low) earlier in December.
- Since late Q1 08 the *baht* has kept depreciating, with the selling pressure in the past few months largely a function of the global spike in risk aversion as well as continued jitters over the state of Thai politics.
- The local stock market has been clobbered heavily, losing over 50% since May, and foreign investors have been quick to dump their shares.

THAILAND



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

INDIA

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|-----------|
| GDP** | 9.0 | 9.8 | 9.3 | 7.6 Q3 |
| Industrial Production - Manufacturing | 9.1 | 11.7 | 10.1 | -1.2 Oct |
| Construction Production (Gross Value Added) | 16.8 | 13.9 | 9.6 | 9.7 Q3 |
| Consumer Prices | 4.2 | 6.2 | 6.4 | 10.4 Oct |
| Wholesale Prices | 4.7 | 4.8 | 4.8 | 8.5 Nov |
| Current Account Balance (US\$bn)** | -10.3 | -9.5 | -12.1 | -21.8 Q2° |
| as a percentage of GDP | -1.4 | -1.2 | -1.2 | -2.0 |
| Real Effective Exchange Rate Index [§] | 103.7 | 102.1 | 108.9 | 101.0 Nov |

Notes:

* yoy % ch, nsa, unless otherwise indicated; national accounts 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) | 5.4 | 6.4 | 7.2 | 7.3 Nov |
| Prime Lending Rate | 10.5 | 10.9 | 12.7 | 13.4 Nov |
| Stock Exchange Index (Mumbai) (% ch)* | 32.7 | 54.7 | 35.6 | -50.3 18/12/08** |

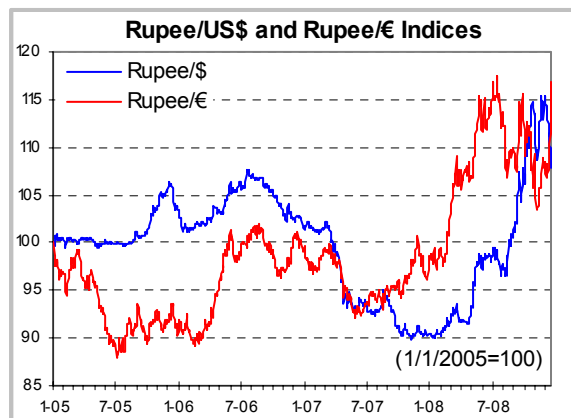
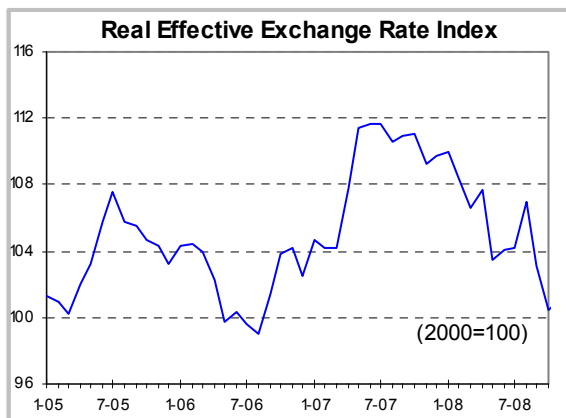
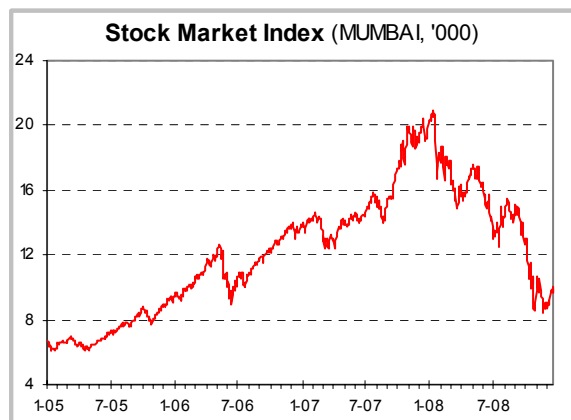
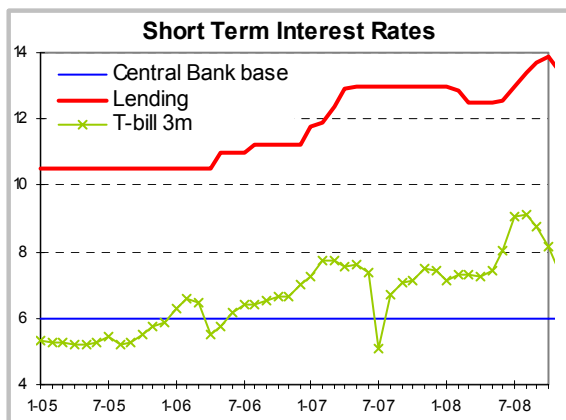
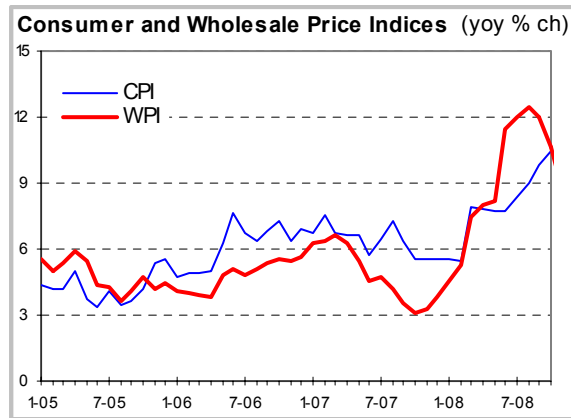
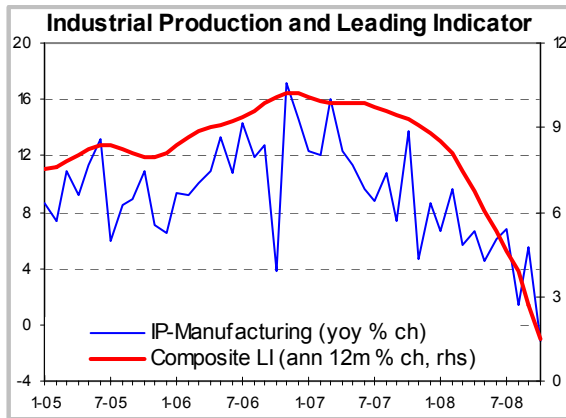
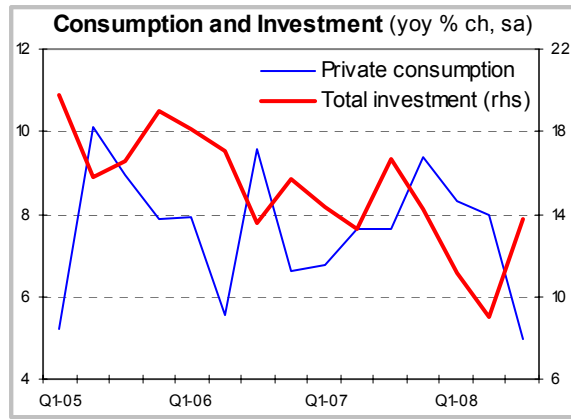
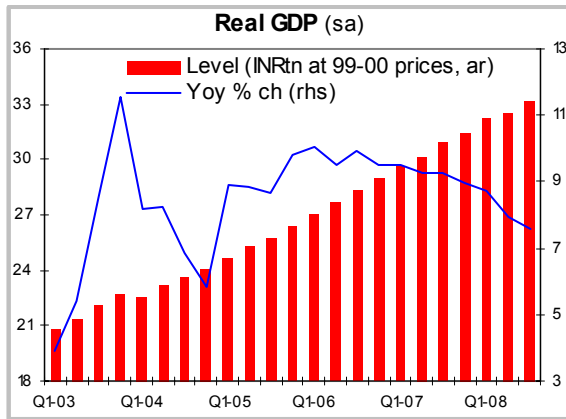
Notes:

* Average over year; ** % change on 31/12/07

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

- The real economy in India has proven particularly resilient in the year through Q3 08 as GDP growth slowed only marginally and remained strong at 7.6% yoy. Consumption decelerated significantly (5% yoy down from 8% in Q2) while, surprisingly, investment shot up by almost 14% yoy and both exports and imports remained relatively solid.
- Looking at the supply side, output growth remained healthy albeit decelerating with respect to a year ago. The manufacturing sector however has weakened markedly and expanded by 5.3% yoy in H1 08 sharply down from 10.1% in H1 07. Faltering external demand, still high borrowing costs and falling business confidence do not bode well for the coming months.
- Albeit retrenching somewhat, inflation remains relatively high. Prices decelerated at the wholesale level (the most looked at inflation gauge) but consumer price inflation remained at record highs in October. The devaluation of the *rupee* in recent months poses some upward risk to price dynamics together with the planned implementation next January of substantial public sector wage rises.
- Despite its limited exposure to global finance India is feeling the pinch of the ongoing crisis via two main channels: the above mentioned reduction in foreign demand which hits its externally oriented part of the economy, and severe capital outflows. These have in turn sparked a fall in the stock market of 50% since the start of 2008 and related heavy selling pressures on the *rupee* which have caused a devaluation of about 18% vis-à-vis the US\$.
- On December 7th the Indian government unveiled a stimulus package worth US\$4bn in addition to an already loose fiscal stance. The rising government needs have absorbed most of the available savings in recent years leading companies to turn to foreign borrowing and equity issues (providing up to an estimated 40% of total funds to Indian industry in the past fiscal year). This has made them particularly vulnerable to swings in investors' sentiment and ultimately is the cause of the liquidity crisis which is ongoing since last summer.
- The Reserve Bank of India (RBI) loosened aggressively monetary policy since October to counter the domestic ramifications of the global financial crisis and thus ease liquidity constraints to the domestic system. The policy focus appears now to have shifted to growth rather than to inflation targeting. The latest cut came in early December when the repurchase rate was cut by 100bp to 6.5% and even the reverse *repo* rate was brought down to 5% (from 6%) for the first time since 2003.

INDIA



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

CHINA

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|-------|-------|-------|-----------|
| GDP | 10.4 | 11.6 | 11.9 | 9.9 Q3 |
| Industrial Production | 16.0 | 16.9 | 17.9 | 5.4 Nov |
| Consumer Prices | 1.8 | 1.5 | 4.8 | 2.4 Nov |
| Producer Prices | 4.9 | 3.0 | 3.1 | 2.0 Nov |
| Trade Balance (US\$bn) | 134.2 | 217.7 | 315.4 | 257.1 Q3° |
| as a percentage of GDP | 6.0 | 8.2 | 9.6 | 6.5 |
| Real Effective Exchange Rate Index [§] | 91.4 | 92.8 | 96.7 | 113.7 Nov |

Notes:

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

| Financial Indicators | | | | |
|---|-------|------|-------|------------------|
| 1Y Lending Rate | 5.6 | 5.9 | 6.8 | 5.6 Nov |
| Stock Exchange Index (Shanghai) (% ch)* | -22.2 | 39.6 | 160.7 | -61.7 18/12/08** |

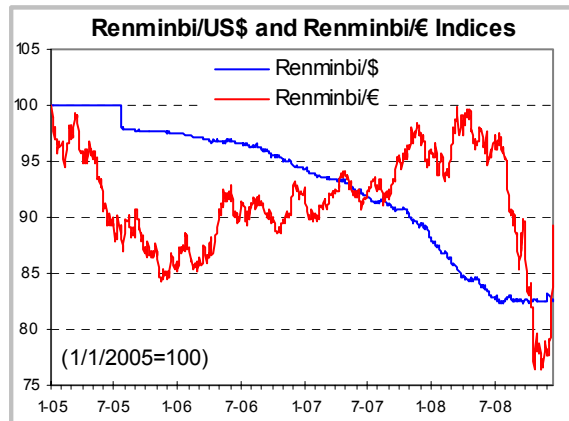
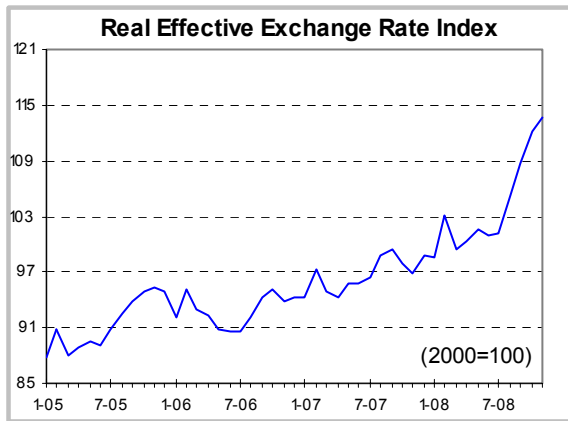
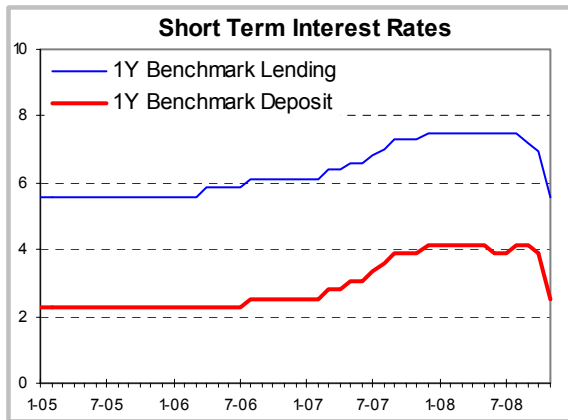
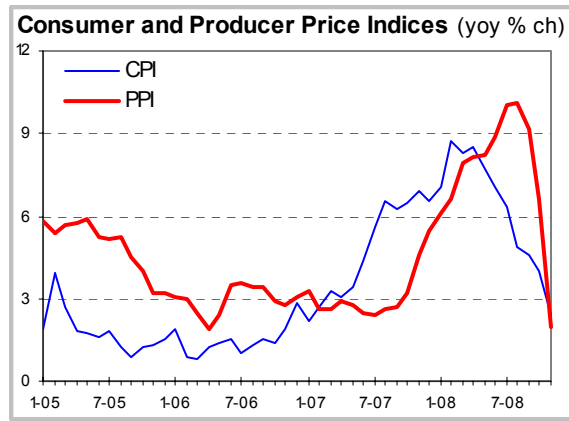
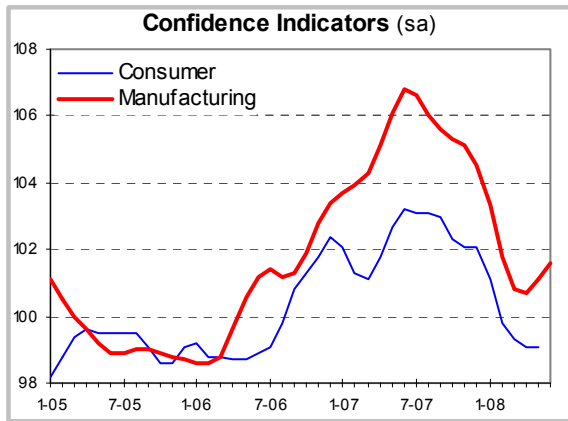
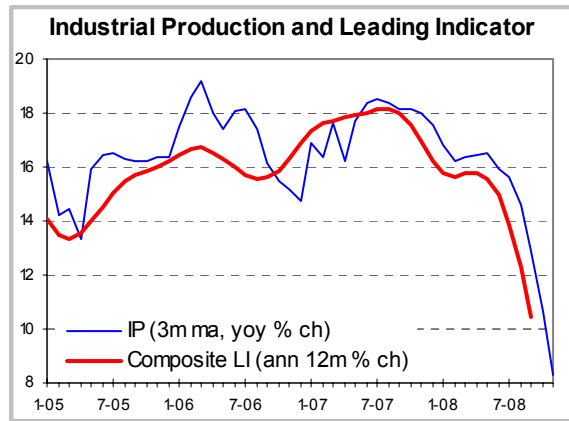
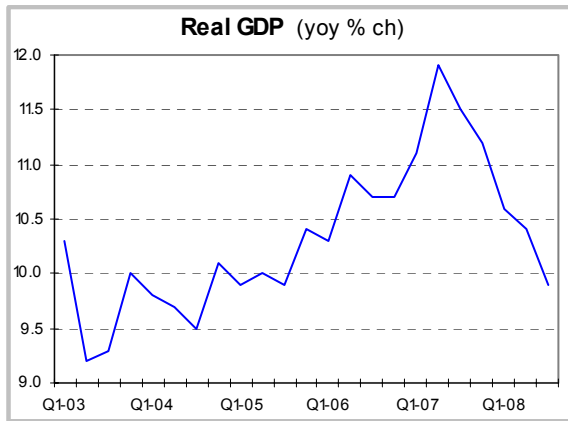
Notes:

* Average over year; ** % change on 31/12/07

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

- China's economy has slowed down considerably in the first 10 months of 2008. GDP growth decelerated from 12.6% yoy in Q2 07 to 9% yoy Q3 08, with industrial value added sliding even more steeply to the 8.2% yoy recorded in October, the first single digit figure since 2001. The burst of the domestic real estate bubble has also been contributing to the slowdown, as indicated by the sharp drop in demand for steel, cement, and other construction materials, as well as power.
- Exports revenues tumbled for the first time in seven years, down by 2.2% yoy in November, with imports declining by 17.9% yoy, the first decline since February 2005, which signals faltering demand for components, and looming weakness in the domestic economy. In the meantime, the amount of inflowing foreign direct investment (FDI) also plunged 36.5% yoy in November.
- On a more positive note, retail sales in nominal terms grew in November by 20.8% yoy. Considering the sharp deceleration in consumer price inflation in November, retail sales have remained robust. In any case it is highly unlikely that consumer demand holds up within a severely deteriorating macro environment. However, thanks to the exceptional level of households' savings, the expected slowdown in retail sales may turn out to be not as sharp as it is forecast for the other demand components.
- People's Bank of China (PBC) has indicated that China will stick to a mix of easy monetary stance and expansive fiscal policy for the next year to counter the effects of weakening demand. As a matter of fact, on November 26th the PBC slashed the benchmark interest rate by 108bp, the fourth cut in a row in two months. In early November the Chinese government rolled out a RMB4tn stimulus package to be implemented by 2010 and according to official data, roughly 80% of the total will be spent on infrastructure projects.
- In the latest signal of weakening economic growth momentum, urban fixed asset investment decelerated sensibly for a second consecutive month in November. This has reinforced the view that additional stimulus measures are in the offing, including further interest rate cuts and increased lending support for small businesses.

CHINA



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

KAZAKHSTAN

| Real Indicators* | 2005 | 2006 | 2007 | Latest |
|---|------|-------|-------|-----------|
| GDP | 9.4 | 10.7 | 8.5 | 1.0 Q3 |
| Industrial Production | 5.3 | 6.3 | 5.0 | 4.3 Oct |
| Consumer Prices | 7.9 | 8.7 | 10.8 | 11.3 Nov |
| Producer Prices | 23.7 | 18.5 | 12.4 | 31.6 Oct |
| Unemployment Rate (%) | 8.0 | 7.6 | 7.2 | 6.4 Q3 |
| Current Account Balance (US\$bn) | -1.1 | -1.9 | -7.2 | 1.7 Q2° |
| as a percentage of GDP | -1.8 | -2.5 | -6.9 | 1.5 |
| Real Effective Exchange Rate Index [§] | 96.4 | 104.1 | 106.5 | 120.5 Oct |

Notes:

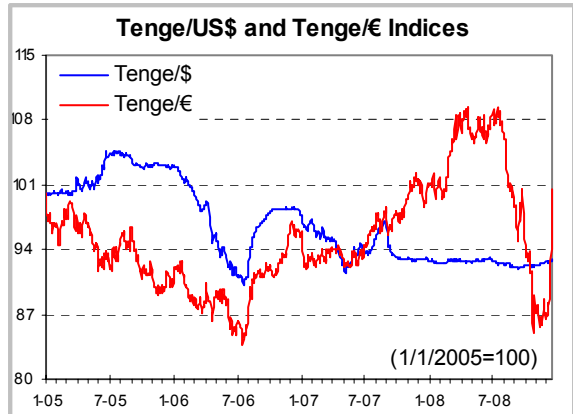
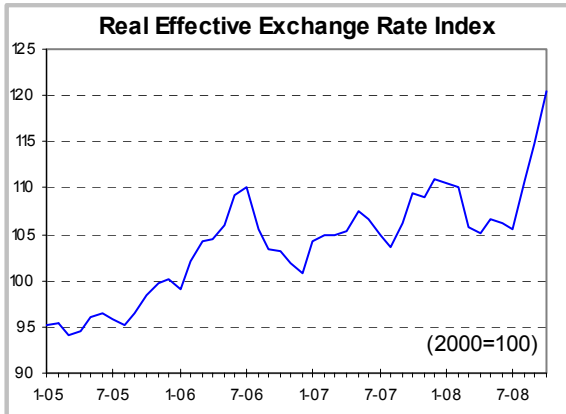
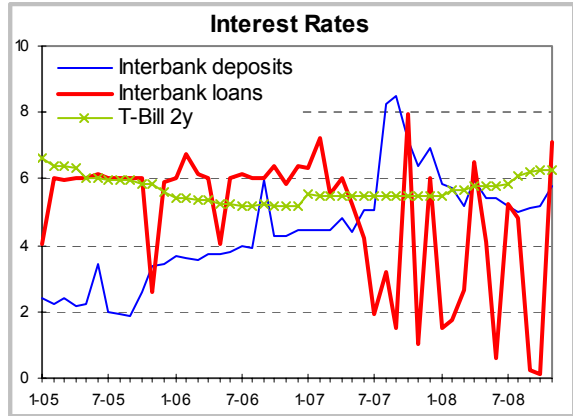
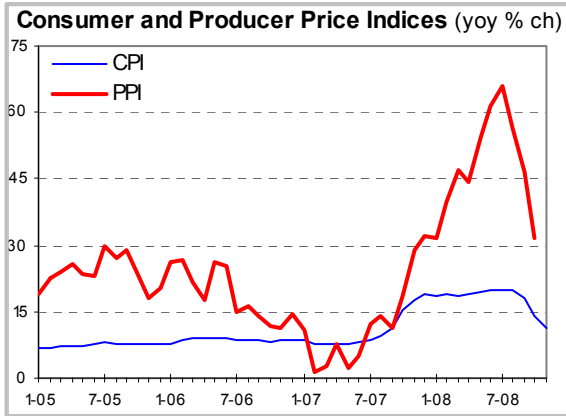
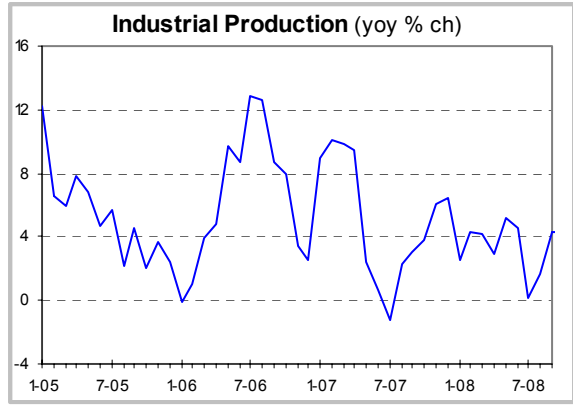
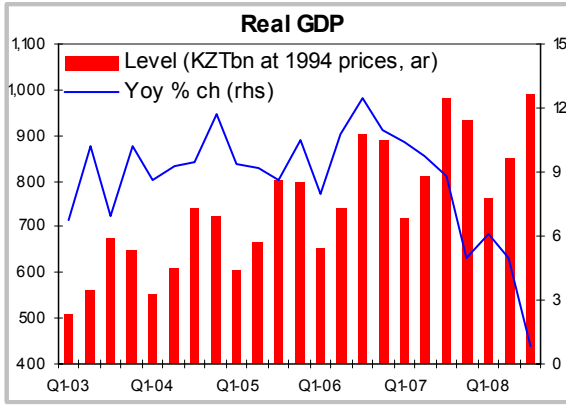
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q2 included; § 2000=100

| Financial Indicators | | | | |
|---------------------------------------|-------|-------|-------|-----------|
| Refinancing Rate (end of period) | 7.8 | 8.6 | 9.2 | 10.5 Nov |
| Short Term Interest Rate pa (<1 year) | 2.8 | 3.5 | 5.6 | 6.4 Nov |
| Exchange Rate Tenge/\$ | 132.9 | 126.0 | 122.5 | 120.1 Nov |

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

- According to the latest official data, GDP grew by just 3.9% yoy in Q3 08, less than half the rate recorded in the same period of 2007, as restricted access to external borrowing has led to stalling credit loans. Investment declined sharply in some of the economy's leading sectors - notably industry, in which investment was down by 4.6% yoy. The industrial sector is in part negatively affected by the fall of the oil and gas sector - which typically attracts between 20% and 30% of the total economy-wide investment – as well as by the construction sector difficulties.
- The decline in investment in the hydrocarbons industry is a cause of alarm given the sector's importance in terms of export revenues and long-term growth prospects. With global oil prices dropping, the government is concerned that the foreign companies that are developing Kazakhstan's oil and gas fields will put on hold their investment programmes.
- Inflation is now slowing, with the yoy rate down to 11.3% in November - the slowest figure since September 2007, owing to declining food and energy prices. Weaker oil and gas prices have also resulted in a substantial easing in producer price inflation. As global commodity prices are expected to remain weak in the next months, further disinflation is in the pipeline.
- In a bid to shore up further protection for an ailing banking sector and curtail growing risks to macroeconomic stability, the Prime Minister announced on November 20th that the government will inject US\$21bn into the economy. This follows a previous pledge of US\$15bn: US\$10bn drawn down from the national oil fund, and the remaining US\$5bn coming as direct capital injections from the National Bank of Kazakhstan (NBK). It is also worth noting that this massive rescue plan will be targeted in large part to the four major banks.

KAZAKHSTAN



Source: National Bank of Kazakhstan