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Social and Economic Studies Office

Economic Profile in ITC Group Countries

n. 1 - March, 29th 2007

Highlights

Global Economic Conditions:

- Real Indicators
- Financial Indicators

Countries:

- USA
- Canada
- France
- Belgium
- Italy
- Spain
- Greece
- Bulgaria
- Egypt
- Morocco
- Turkey
- Thailand
- India
- 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
pa	per annum
Q	quarter
rhs	right hand side
sa	seasonally adjusted
saar	seasonally adjusted at annual rate
tn	trillion
y	year
yoy	year-on-year
o/n	overnight
wda	working days adjusted

Based on all information up to March, 29th 2007
Available in @Gold

Highlights

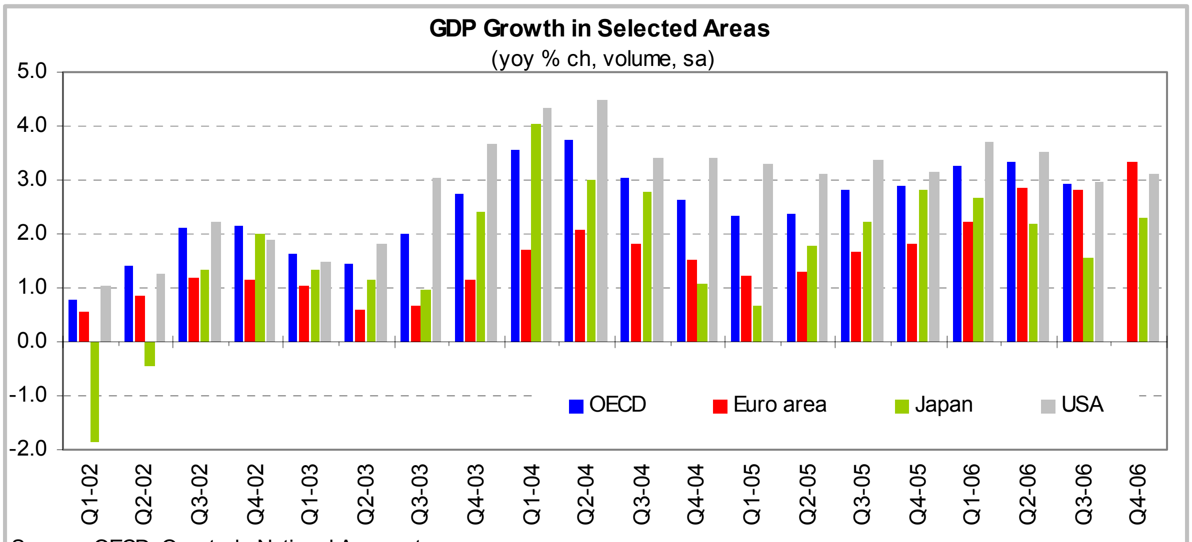
- At the end of the first quarter of 2007 the world economy keeps on running at a sustained pace; however, recent shocks in stock markets as well as renewed nervousness about oil signal that more turbulent times are looming ahead.
- Signs from the US are mixed. On the one hand, there is an increasing risk that the housing crisis may filter through the whole economy, mainly via the credit system. On the other hand, consumers' and producers' confidence remain up-beat while the ongoing overall economic softening is not set to usher a deep recession.
- The euro area is performing by far better than expected, particularly Germany, which is recovering its ancient pivotal role for the whole European economy.
- In the emerging area economic activity is still dynamic notwithstanding efforts to avoid overheating in a number of countries, particularly in China.
- The oil price is again moving upward. More than to a sudden surge in demand, this trend reversal may be ascribed to resurgent geopolitical tensions in the Middle East, concerning in particular the Iranian issue.
- After the wide corrections in the stock markets triggered by Shanghai late in February most of the losses have been recovered.
- The dollar has weakened vis-à-vis the euro in Q1 07 following further reductions in the US/euro area interest rates and growth differentials.
- In the past three months, monetary policy remained on hold in the US against a new rate hike by the ECB, which has confirmed its tightening bias (i.e. further hikes by June are possible).
- In the above scenario, construction shows three different profiles in the Group's countries:
  - in the US the housing recession appears not to have bottomed out yet and overall construction prospects have consequently worsened;
  - in the euro area better than expected economic activity coupled with still contained real interest rates help keep construction activity lively (although less brilliant than in 2006);
  - in all the Group's emerging countries construction is faring well and is set to continue so, barring Thailand where the ongoing trend is clouded by the uncertain political setting.

GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)		2004	2005	2006	Latest
GDP:	OECD	3.3	2.6		2.9 Q3
	Euro Area	2.0	1.4	2.6	3.3 Q4
	USA	3.9	3.2	3.3	3.1 Q4
	Japan	2.7	1.9	2.2	2.3 Q4
Inflation:	USA	2.7	3.4	3.2	2.4 Feb
	Euro Area	2.1	2.2	2.2	1.8 Feb
Oil Price Level	(Brent, $/barrel)	38.3	54.4	65.4	57.7 Feb
	(yoy % ch)	32.5	42.0	20.2	-3.9

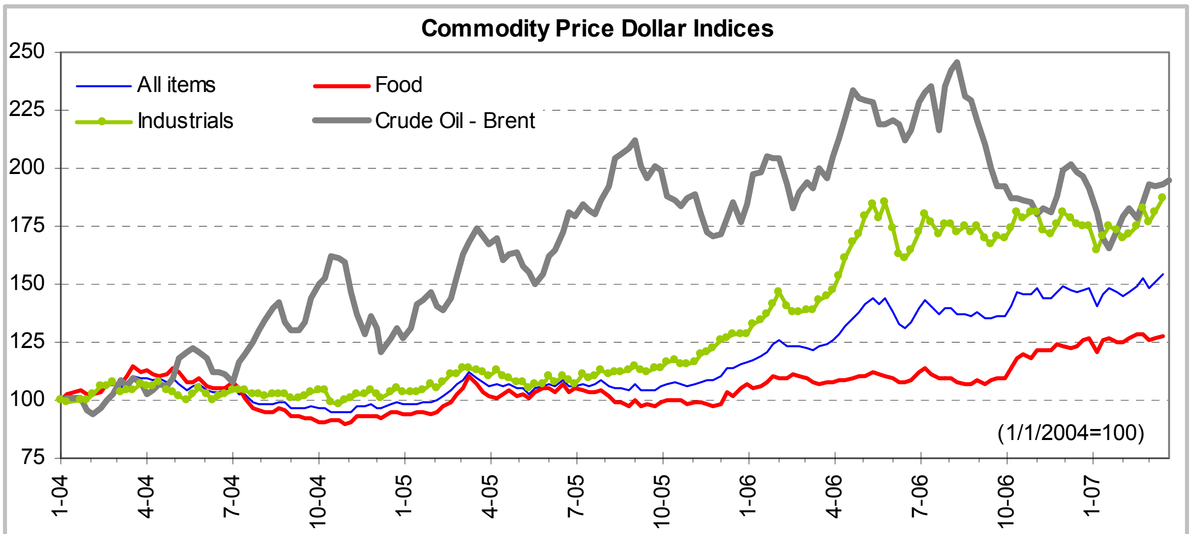
Notes:
Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, Energy International Agency

- According to preliminary estimates the world economy maintained its momentum in 2006 and grew by around 5.2-5.3%. This marks the fourth consecutive year of exceptional growth as global economic expansion between 1980 and 2002 has been on average 3.4% (3.5% over the last decade up to the start of the ongoing boom). Notably, the contribution of emerging countries such as China and India has increased substantially together with their rising world share and is now steadily outstripping that of the advanced economies. In 2006, some 1.7% of total growth originated in China, against a meagre 0.7 and 0.4% respectively from the US and the euro area.
- A striking feature of the current juncture is the larger than expected size of the euro area recovery, driven in particular by Germany. In Q4 06 the euro area outperformed the US, the first time since Q1 00, and short term prospects are a US softening against a still healthy euro area economy.
- The buoyancy of the global economy notwithstanding, inflation trends have been globally rather benign, but in isolated cases (e.g. Turkey), partly because of milder energy prices and partly as monetary policies have generally stopped being accommodative. Inflation trends across the Atlantic Ocean appear to be slightly diverging as of recent, with US price dynamics stubbornly well over 2% and euro area prices very well behaved, despite the local monetary authorities' worries.
- Following last August peaks, when the Brent oil price almost hit 79$/bl, oil prices fell down to just under 50$/bl by mid-January and have since started to rise again following persistent cold weather in the Northern hemisphere. Prices are currently rapidly heading towards the 65$/bl threshold and seem to herald a less favourable energy price season. The main culprits are growing geopolitical concerns from the Iran crisis, as the UN press ahead for tightening sanctions on Iran, to the Iraqi and Nigerian issues. In addition, in its latest meeting earlier this month the OPEC cartel decided to keep output unchanged despite calls for more oil by the world's biggest consumers. All this may point to a significant tightening ahead this year in the supply-demand balance.

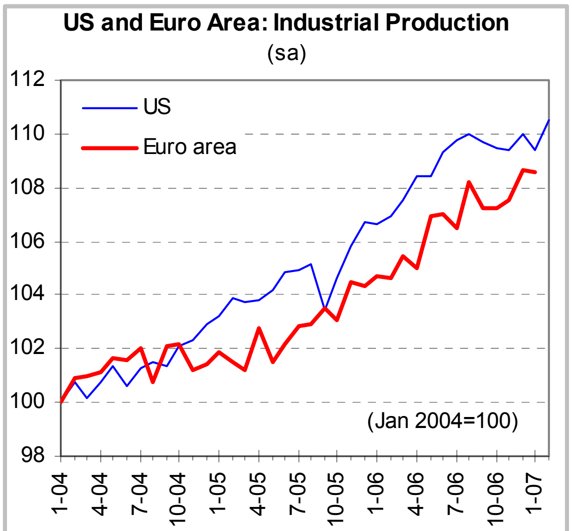


Source: OECD, Quarterly National Accounts

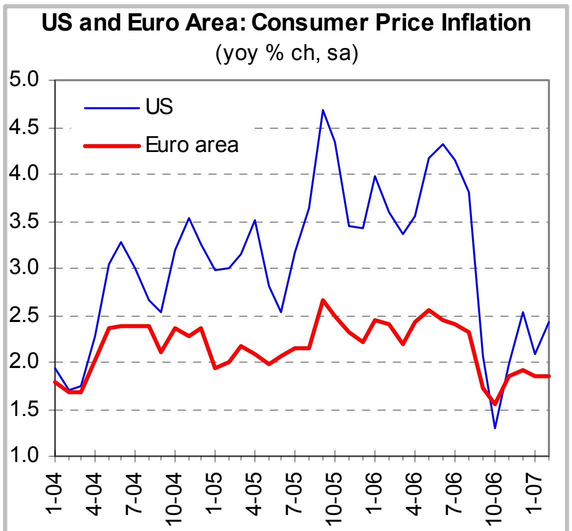
REAL INDICATORS



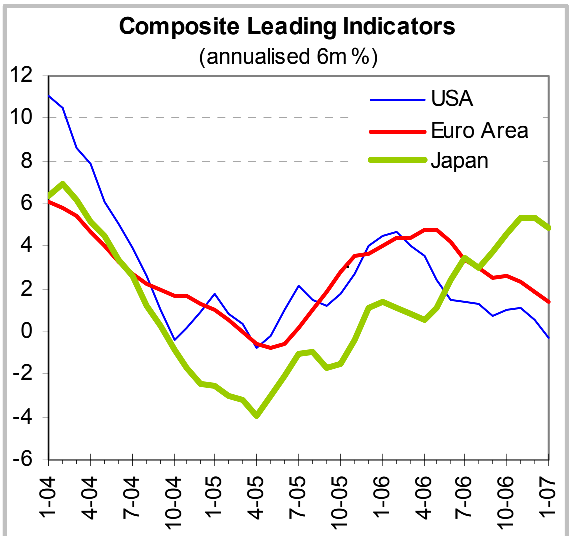
Sources: Economist and International Monetary Fund



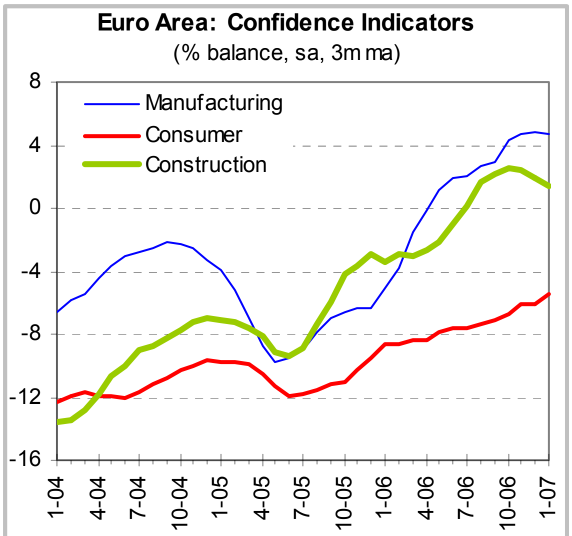
Source: OECD, Main Economic Indicators



Source: OECD, Main Economic Indicators



Source: OECD, Main Economic Indicators



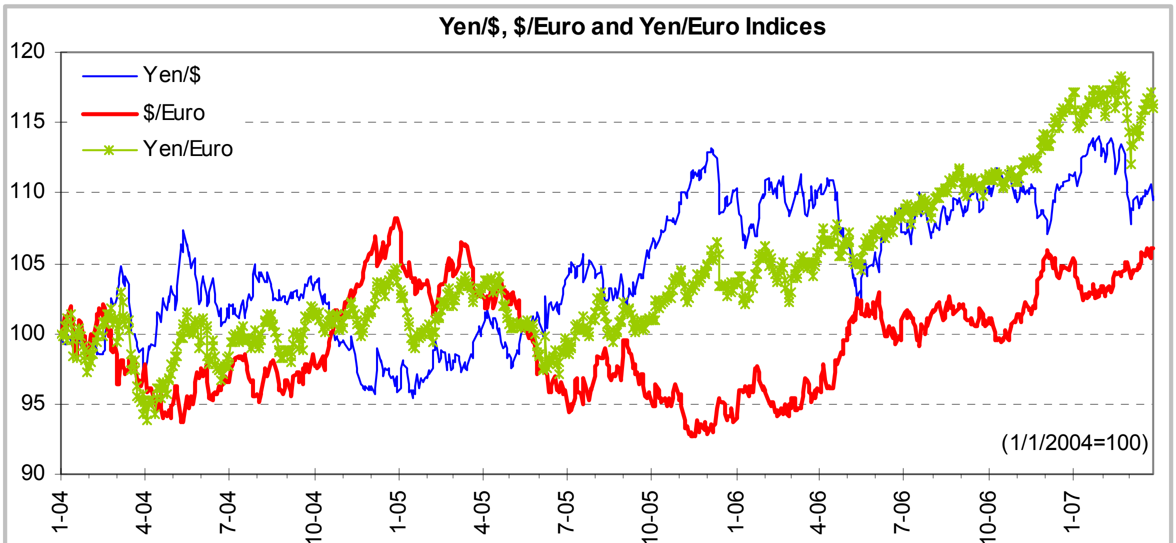
Source: European Economy, Supplement B

GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2004	2005	2006	Latest
Dollar/Euro Exchange Rate	1.244	1.244	1.256	1.310 *
Policy Rates (end of period):				
- US (target for federal funds)	2.25	4.25	5.25	5.25 29/06/06
- Euro Area (repo rate)	2.00	2.25	3.50	3.75 14/03/07
Long Term Interest Rate (10y government bonds, year average):				
- US	4.26	4.28	4.79	4.72 Feb
- Euro Area	4.14	3.44	3.86	4.12 Feb

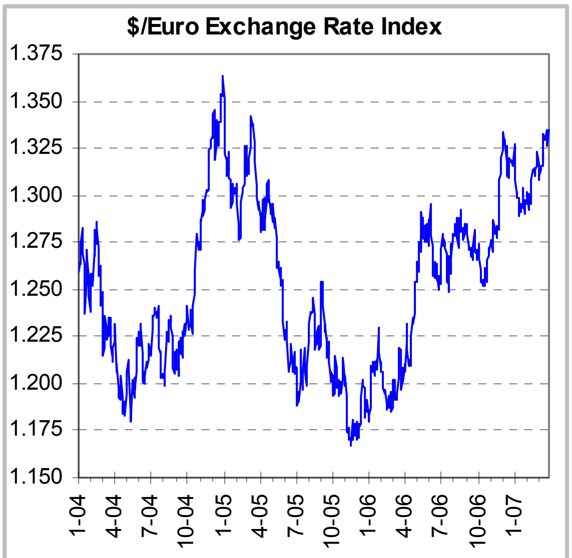
Notes:
* Average from 2/1/2007 to latest available data
Sources: European Central Bank and Federal Reserve Bank

- Albeit undergoing some softening, the world economy is still retaining considerable momentum which is at the roots of the widespread persisting concerns regarding the risk of overheating. As a matter of fact, global liquidity remains abundant and in some cases, as in China, the increasingly aggressive tightening measures enforced by the local monetary authorities appear to be hardly effective. Globally, the times of accommodative monetary policies are over and Central Banks remain either on hold, following repeated tightenings, or signal a more restrictive stance.
- In the euro area, the ECB raised the policy rate in mid-March in view of the upside risks to price stability stemming from continuing excessive liquidity growth in the area, in turn due to robust economic growth, and from concerns on oil price developments and on potential wage induced second round effects. In fact, actual price dynamics in the euro zone are still well behaved. In the US the Fed has recently remained on hold but concerns on inflation remain predominant so that the perspective policy moves are open, though the stance is more clearly neutral oriented.
- Long term government bond yields remain relatively low although euro yields are now some 30bp points higher than in December while for US yields the gain is only 10bp reflecting increasing worries about the strength of the US economy (hence the marked yield curve inversion for the US).
- Following substantial stability between May and October last year, the euro has appreciated vis-à-vis the US$ by around 5% reflecting the cyclical rebalancing between the US and Euroland as well as the declining interest differential among the two areas. The yen underwent a strong appreciation, partially recovered, by the end of February in coincidence with the global financial market turbulence. The latter, by now generally mostly re-absorbed, has been triggered by the fall in the Shanghai stock market, reinforced by worries about the US and the yen carry trade unwinding, in an environment of increased risk aversion and uncertainty among global investors.

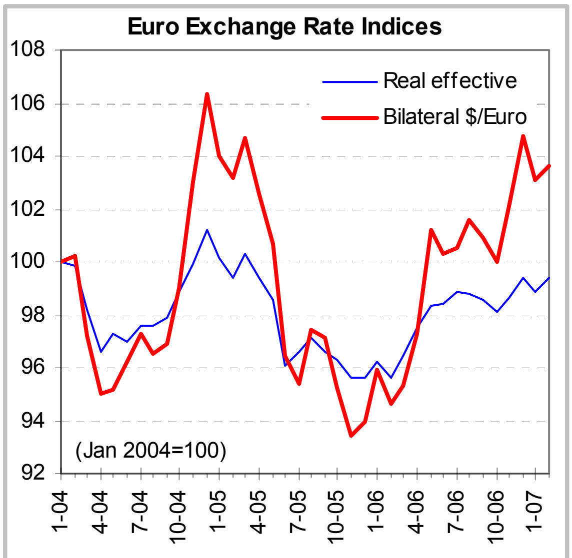


Source: Daily press

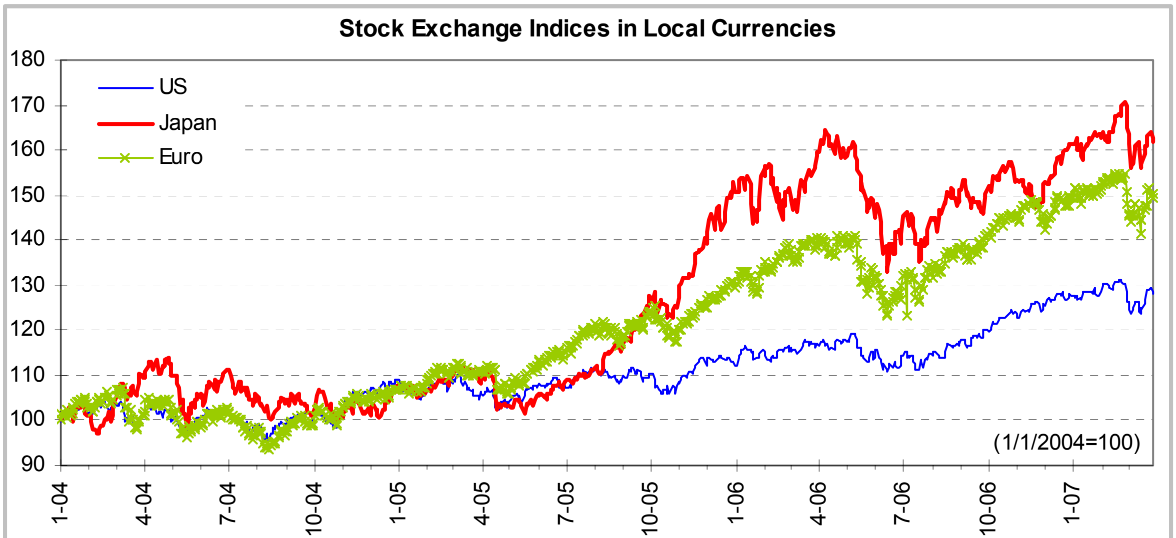
FINANCIAL INDICATORS



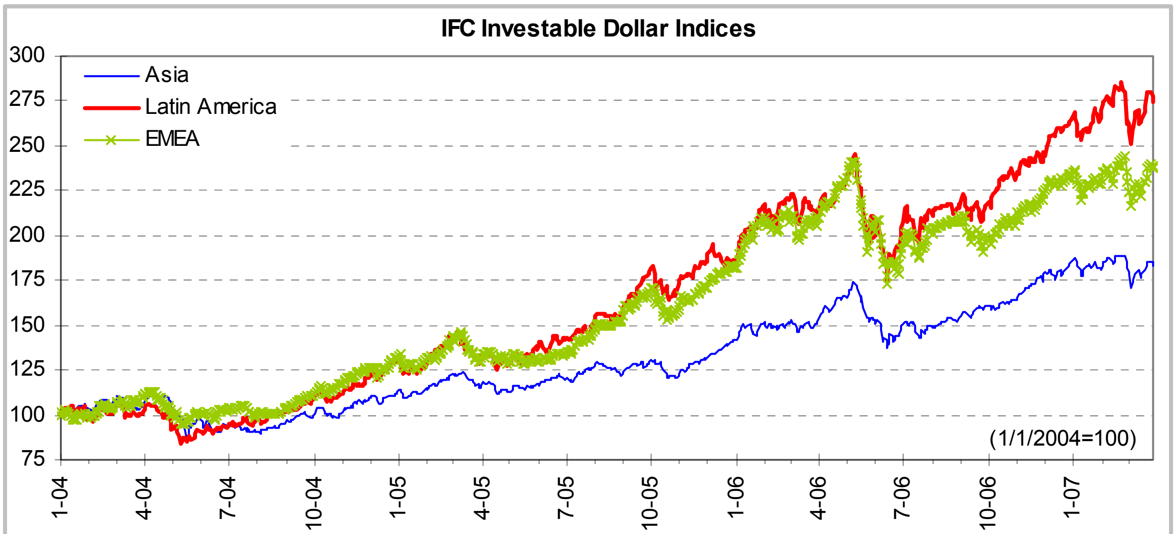
Source: Daily press



Source: European Central Bank



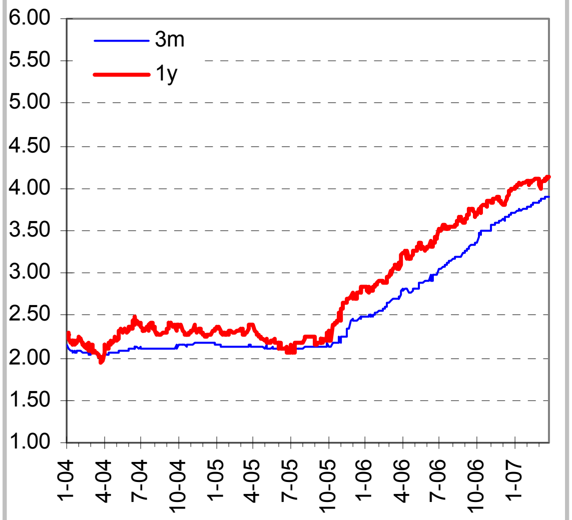
Source: Daily press



EMEA: Less Developed Europe, Middle East and Africa, includes Russia. Source: Standard & Poors

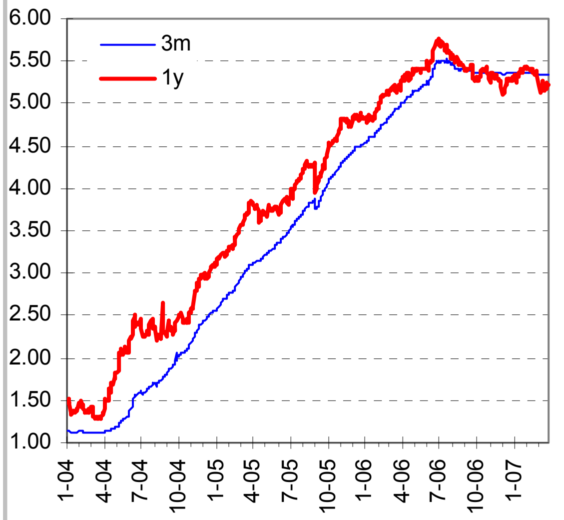
FINANCIAL INDICATORS

Euro Libor



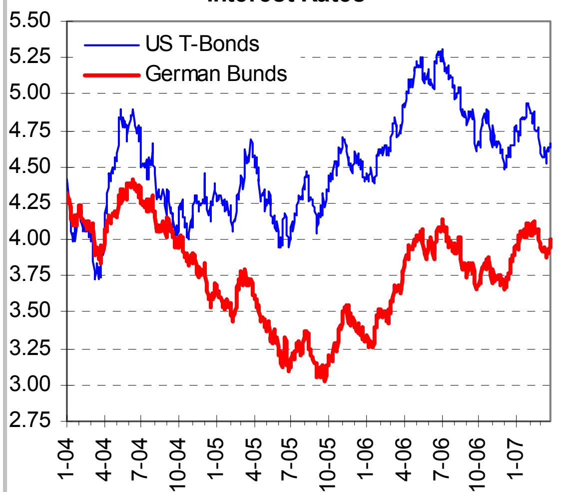
Source: Daily press

Dollar Libor



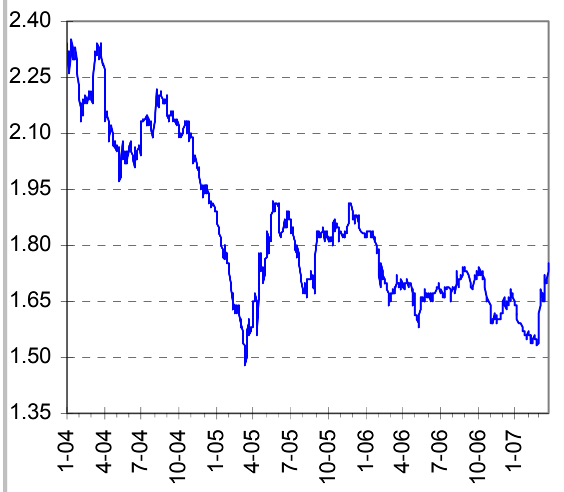
Source: Daily press

US and Germany: Benchmark 10 Years Interest Rates



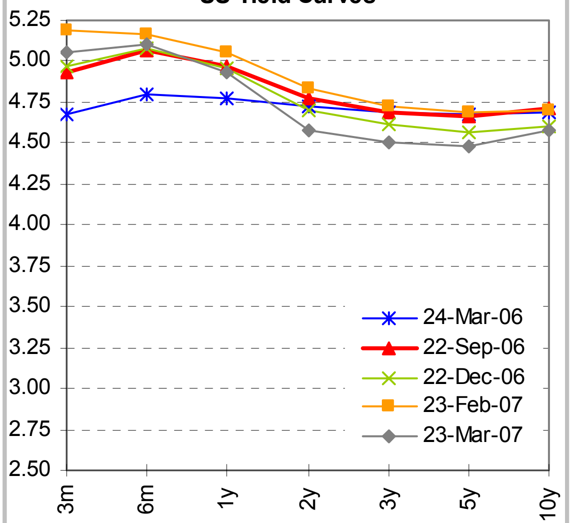
Source: Daily press

10 Years US T-Bonds and Moody's *baa* Rated Bonds: Interest Rates Differential



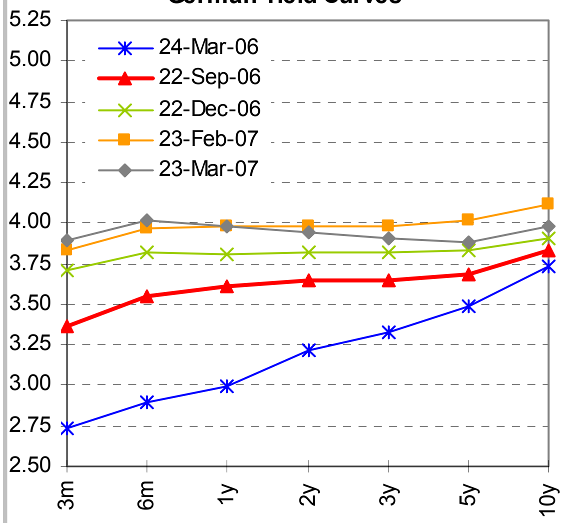
Source: Federal Reserve Bank

US Yield Curves



Average rates for w eek ending date show n. Source:FED

German Yield Curves



Average rates for w eek ending date show n.Source:DBB

UNITED STATES

Real Indicators*	**2004**	**2005**	**2006**	**Latest**
GDP	3.9	3.2	3.3	3.1 Q4
Industrial Production	2.5	3.2	4.1	1.0 Feb**
Construction Materials Production	2.0	4.8	3.5	-0.6 Feb**
Construction Investment	5.1	4.6	0.2	-4.1 Q4
Housing Starts - Private	5.9	5.8	-12.9	-28.5 Feb
Consumer Prices***	2.7	3.4	3.2	2.4 Feb
Producer Prices - Manufacturing***	3.7	4.8	3.0	2.5 Feb
Hourly Earnings - Manufacturing***	2.5	2.6	1.6	1.7 Feb
Standardised Unemployment Rate (%)	5.5	5.1	4.6	4.5 Feb
Current Account Balance (US$bn)	-665.3	-791.5	-856.7	
- as a percentage of GDP	-5.7	-6.3	-6.5	
Real Effective Exchange Rate Index§	94.7	93.3	92.6	91.4 Feb

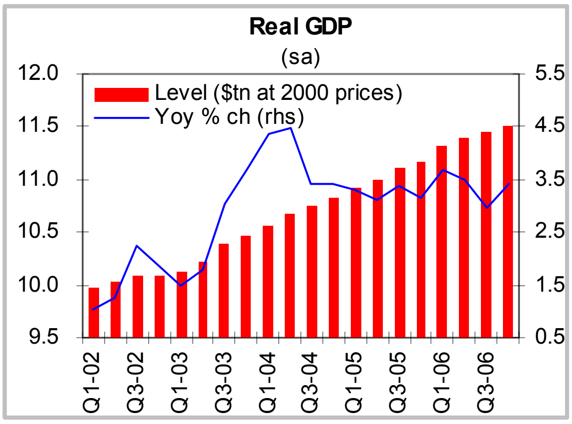
Notes:
* % yoy ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; § 2000=100

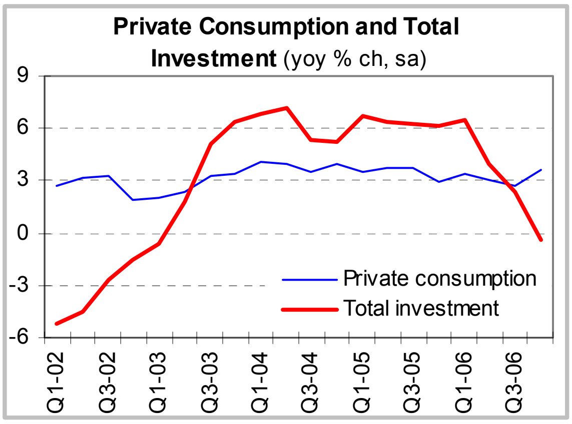
Financial Indicators				
Short Term Interest Rate pa (3m CD)	1.56	3.51	5.16	5.31 Feb
Long Term Interest Rate pa (benchmark 10y)	4.26	4.28	4.79	4.72 Feb
Stock Exchange (S&P 500) Index (% ch)*	17.2	6.8	8.5	0.5 28/3/07**

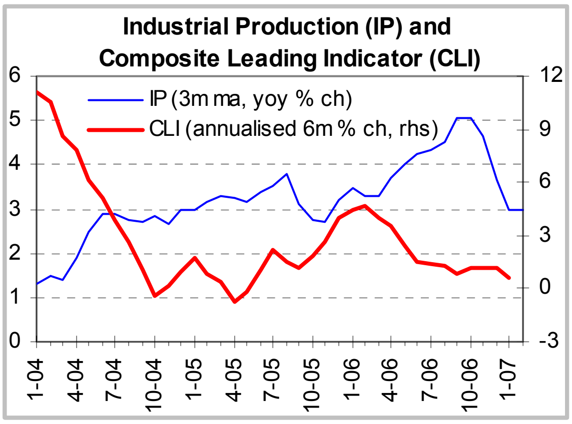
Notes:
* Average over year; ** % change on 31/12/06
Sources: OECD, FED, Bureau of Economic Analysis, Bank of International Settlements (BIS), daily press

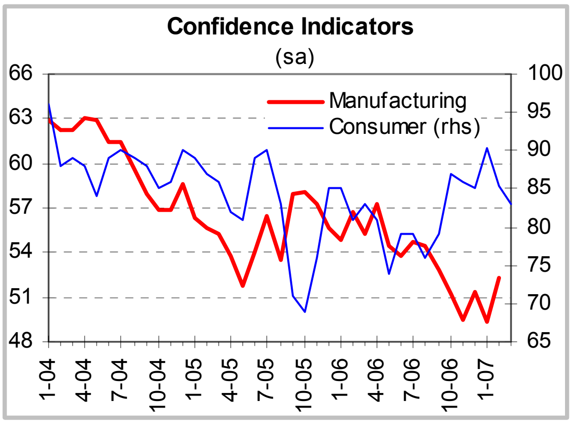
- The US economy continues to expand although below its potential mainly due to weakness in housing and some softening in the business sector. While private consumption accelerated to 1% q-o-q in Q4 06 (+3.6% y-o-y), total investment dropped for the third consecutive quarter driven by the fall in residential investment (see below). In fact, investment excluding structures (i.e. investment in equipment and software) fell by 1.2% q-o-q in Q4 decelerating sensibly also on a y-o-y basis. This was reflected in a sudden fall in import (-0.7% q-o-q, +3.3% y-o-y down from 7.2% in Q3) which coupled with accelerating export resulted in a large positive contribution to overall GDP growth and in a significant reduction in the current account deficit. However, the latter was still at a very large 6.5% of GDP for the whole 2006.
- Consumption remains robust on the back of a firm labour market, good wage growth and healthy disposable income growth, the latter spurred by large annual bonus payments. However, recently released data on retail sales and consumer credit show some slowdown is finally creeping in. In particular, the poor sales performance at retailers' level of furniture and housing materials reflect the fact that the downturn in the US housing market is feeding through to the consumer sector.
- Industrial production rebounded strongly in February, well above consensus, driven particularly by utilities and durables. The jump was surprising particularly in the face of the dismal factory orders figures of January, which saw a fall of 8% in durable orders. As a matter of fact, the business sector continues to send mixed signals. As the inventory correction remains the main story, confidence indicators are improving on the production and order side, while the housing related activities are suffering.
- Overall the economy remains on track and fundamentals signal that albeit below potential GDP growth will remain satisfactory. The housing sector downturn represents a growing menace to the outlook also due to a stunning surge in mortgage credit problems, particularly in the sub-prime segment. The risk of an incoming credit crunch is thus starting to loom.
- Inflation remains stubbornly high with the core consumer price index as high as 2.7% in February, well above the Fed's preferred 1-2% range. Indeed, core prices have risen by 2.6% or more and the Fed has clearly expressed its concern that "inflation will fail to moderate as expected".

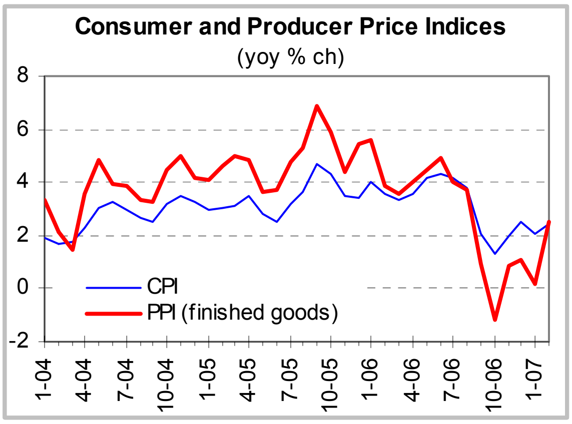
UNITED STATES

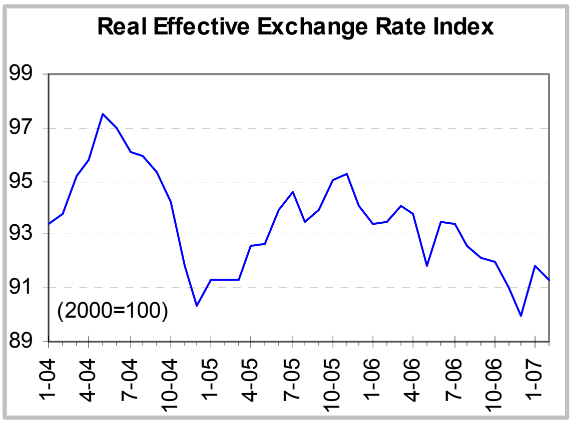


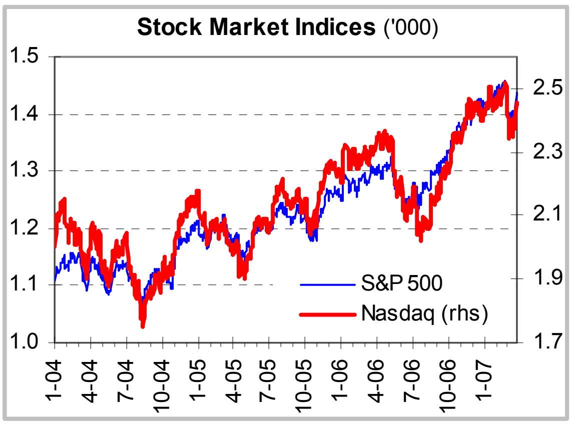


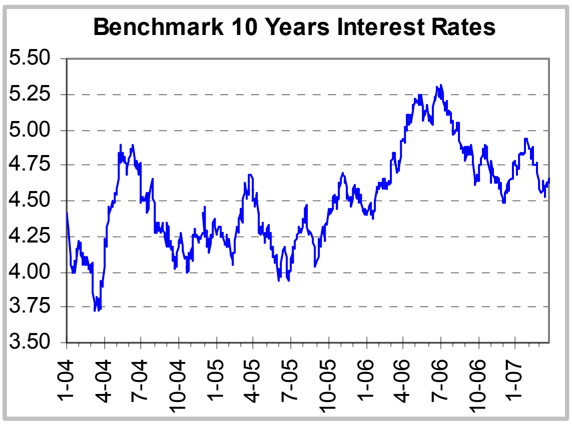








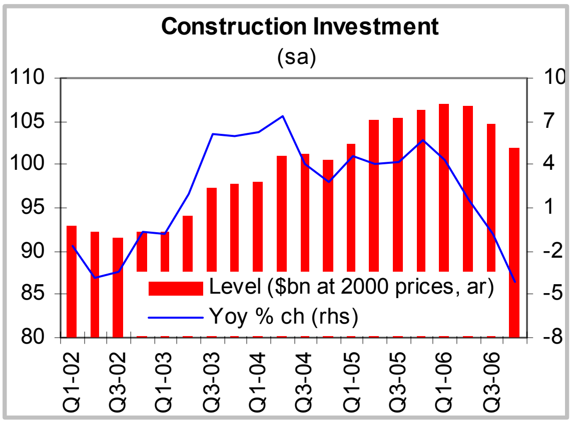


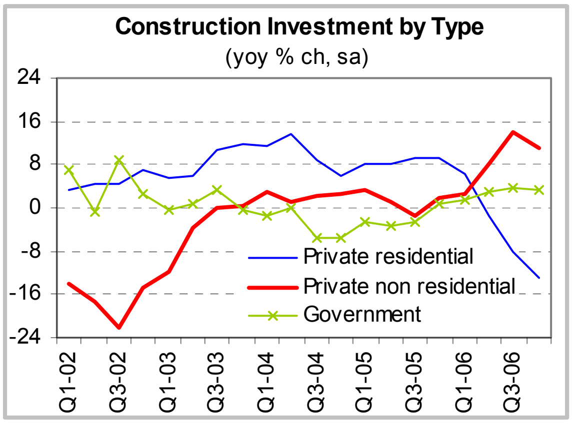


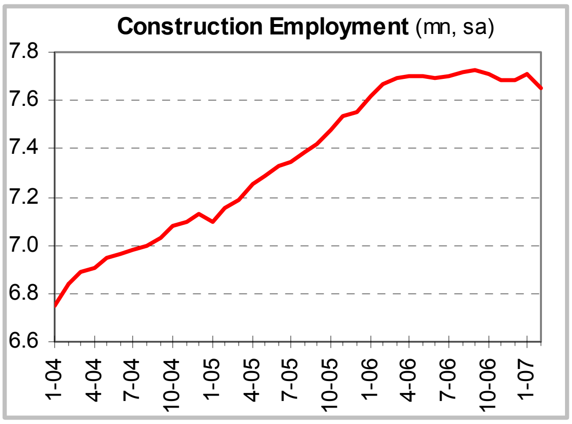
Sources: OECD, Bureau of Economic Analysis, Bureau of Labor Statistics, BIS, daily press

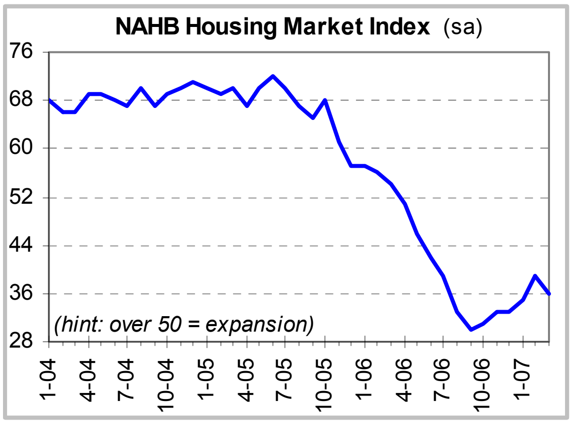
UNITED STATES

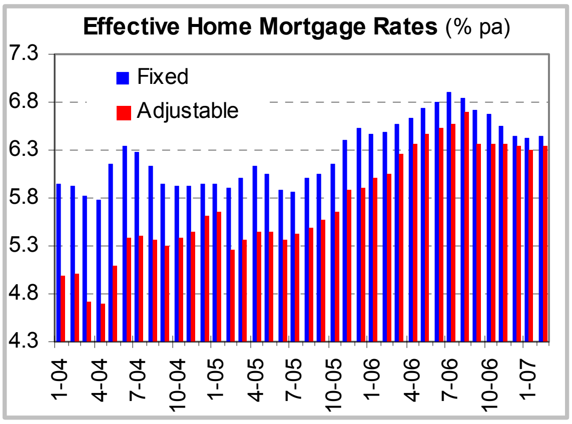
Business Conditions in the Construction Sector

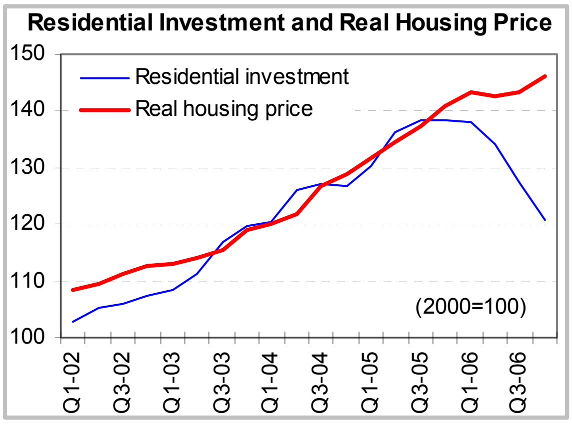


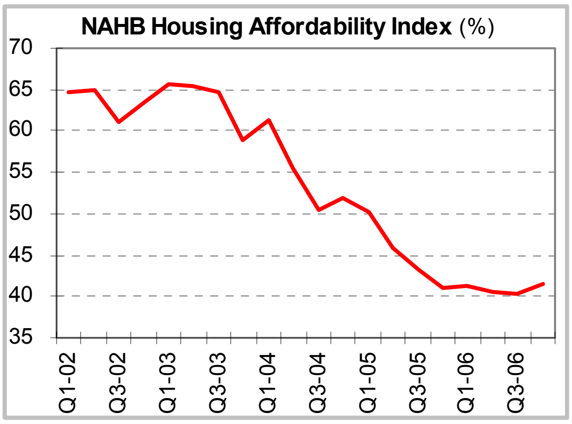


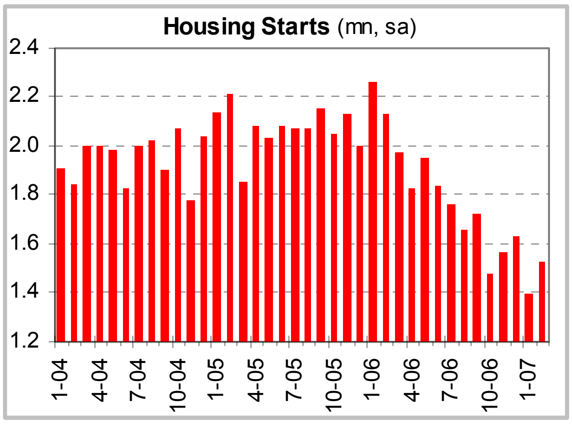












Sources: US Census, National Association of Home Builders, Dept. of Labour, Federal Housing Finance Board, Bureau of Economic Analysis, Bureau of Economic Analysis, Bureau of Labour Statistics, OFHEO

UNITED STATES

- According to national accounts data, construction investment dramatically slowed down in 2006 (+0.2%) due to the plunge of the housing sector (-4.3% with a carry-over of -7.4%).
- Indicators for the housing market continue to be rather mixed. On the one hand, permit issuance declined in February by 2.5% m-o-m. Sales of new homes also declined by 3.9% m-o-m in February (on a y-o-y basis, sales are down by 18.3%), recording the worst monthly outcome since August 2000. In addition, the March NAHB Housing Market Index (HMI) declined by three points. On the other hand, housing starts rose again in February (+9% m-o-m) after having dropped sharply in January (-14.3% m-o-m). February's existing home sales increased by 3.9% (m-o-m).
- Further declines over the year are in the cards. As a matter of fact, investors continue to run away from previously hot housing markets while lenders are becoming increasingly cautious given the deteriorating quality of the existing loans' stock. Delinquency rates on all mortgages at commercial banks rose in the fourth quarter to 1.9%, the highest level in nearly four years. Early payment defaults on subprime loans through mid-2006 have tripled as compared to early 2005, and some bank regulators have stepped up calls for stricter lending standards. The meltdown of the subprime mortgage segment is definitely a matter of concern for the US housing market, as it may add to a heavy inventory overhang (via foreclosures) and to reduced home sales (via tighter lending standards).
- Nevertheless, good news is coming from the flight to quality in financial markets, which is pushing down rates on prime mortgages, as well as from the slowdown in home prices, which is improving home affordability. In addition, the still buoyant dynamics of real household disposable income is helping to curb the risk of a demand collapse.
- Activity in non residential construction is performing well (+9% on average in 2006), thanks particularly to robust demand for offices and retail and tourist structures. The expected slowdown in the overall economy this year may impact on the sector although not too intensely.
- As for public works, which grew by 3.1% on year average, prospects remain favourable due to the healthier budget conditions at the States' level and the implementation of the SAFETEA-LU - the six year infrastructure plan started at the end of 2005.

CANADA

Real Indicators*	2004	2005	2006	Latest
GDP	3.3	2.9	2.7	2.3 Q4
Industrial Production	2.0	1.0	-0.5	0.0 Dec**
Construction Production	6.3	5.7	7.3	0.9 Dec**
Construction Investment	6.7	5.4		3.3 Q3
Consumer Prices***	1.9	2.3	2.0	2.0 Feb
Producer Prices***	3.1	1.5	2.4	2.8 Jan
Hourly Earnings - Manufacturing***	2.7	1.8	0.5	0.9 Dec
Standardised Unemployment Rate (%)	7.2	6.8	6.3	6.1 Feb
Current Account Balance (Can$bn)	27.6	31.8	24.3	
as a percentage of GDP	2.1	2.3	1.7	
Real Effective Exchange Rate Index§	112.0	118.7	125.4	119.8 Feb

Notes

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; § 2000=100

Financial Indicators	2004	2005	2006	Latest
Short Term Interest Rate pa (o/n)	2.25	2.66	4.02	4.24 Feb
Long term interest rate pa (benchmark 10y)	4.59	4.07	4.21	4.11 Feb
Stock Exchange (TSE) Index (% ch)*	20.7	17.6	18.4	2.6 28/3/07**

Notes:

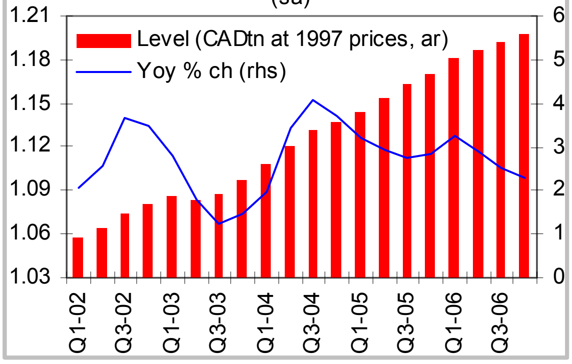
* Average over year; ** % change on 31/12/06

Sources: OECD, Statistics Canada, BIS, daily press

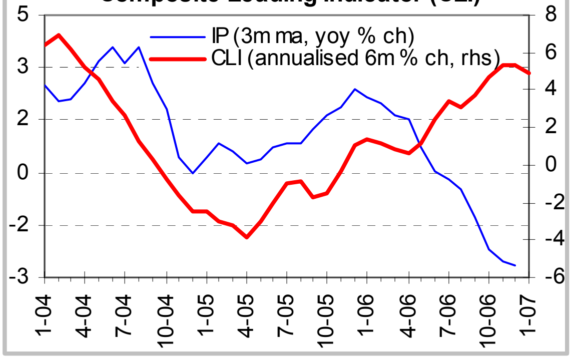
- The Canadian economy closed the year 2006 on a slightly softer note although still running at a healthy pace. The modest weakening was the result of the cyclical slowdown (+2.3% y-o-y in Q4 down from 2.6% in Q3 for GDP growth) as the economy hit its third year of expansion. In particular, while domestic demand and exports remained robust, the inventory drawdown dragged over 1% from q-o-q overall growth. Consequently, imports slowed significantly too.
- Upbeat labour market indicators, good disposable income creation and relatively tame inflation all remain supportive of consumption fundamental for the coming months.
- The construction sector maintains a lively pace although housing has somewhat suffered in the central part of last year. Only private construction figures are available for the whole year: overall growth has been 6.1% (+4.9% y-o-y in Q4) but with wide differences as the non residential component experienced an outright boom (+10.7%) while housing moderated to 2.4% (down from 3.2% in 2005). Most recent data point to a pick up in housing activity, largely driven by strong demand for renovation and to continued boom in business construction (particularly engineering).
- The CA$ has somewhat weakened since last summer on the back of weakening commodity prices but not enough to lift the manufacturing sector form its negative cyclical phase. The latter is suffering from a still broadly strong CA$ and from an ever intensifying global competition which have resulted in a continuing drop in industrial capacity utilisation over the past year.
- In its last monetary policy meeting the Bank of Canada (BoC) decided to keep its target for the overnight rate at 4.25%, unchanged since May 2006. As the Canadian economy appears to run as a well-oiled machine (solid growth at, or just above, full potential, well behaved inflation, despite the February slight acceleration, and reassuring outlook), the current neutral monetary stance is deemed appropriate. The only serious downside risk comes from the prospect that growth in the US economy could be lower than expected, while the main upward risk is represented by too strong domestic household consumption.
- The federal government ran its eighth consecutive surplus in fiscal 2005/06. The recently released 2007 budget promises a slightly narrower fiscal surplus and significant funds going to the environment, higher education, healthcare, and reducing tax for lower-income families.

CANADA

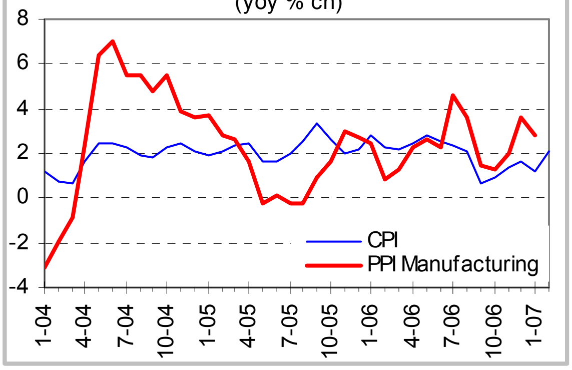
Real GDP
(sa)



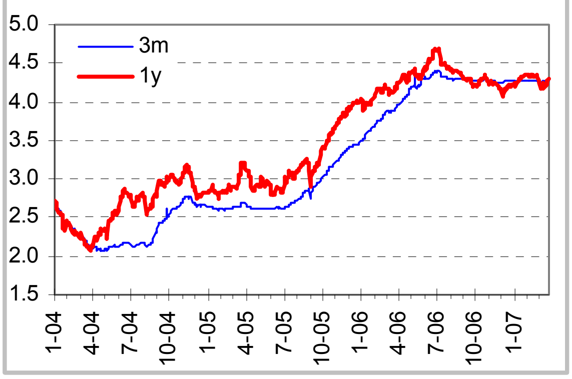
Industrial Production (IP) and Composite Leading Indicator (CLI)



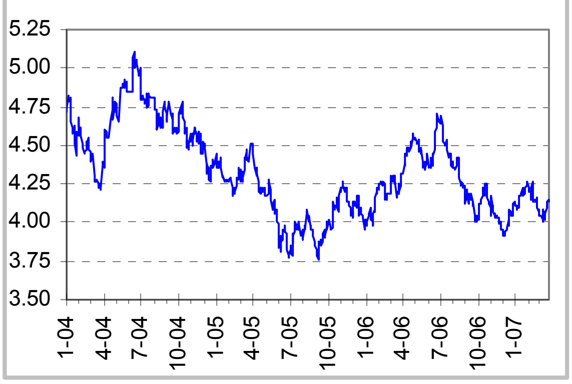
Consumer and Producer Price Indices
(yoy % ch)



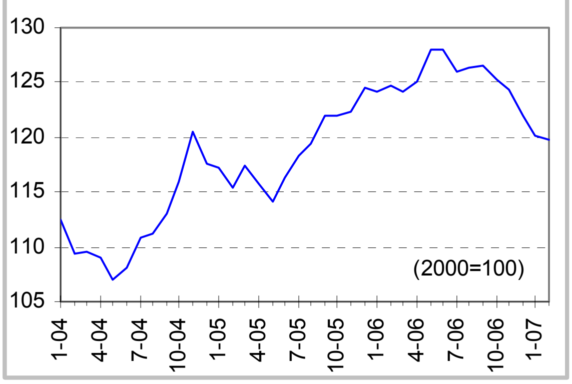
Canadian $ Libor



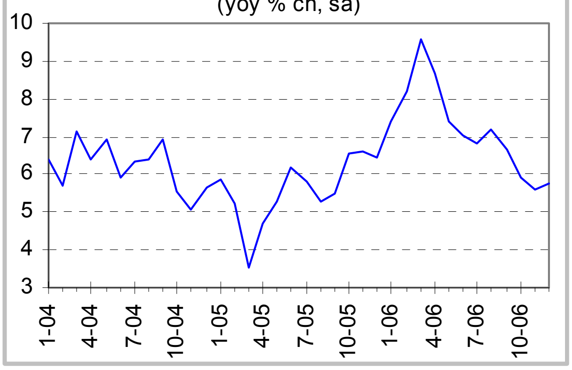
Benchmark 10 Years Interest Rates



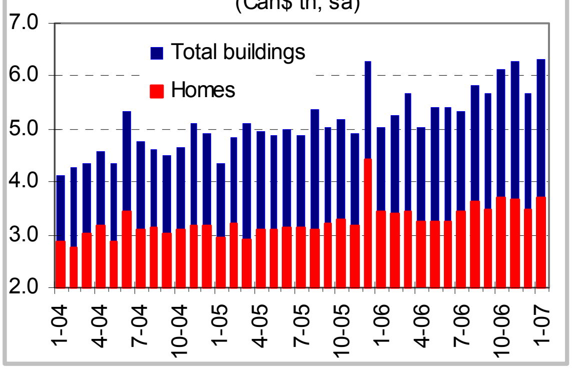
Real Effective Exchange Rate Index



Construction Production
(yoy % ch, sa)



Construction: Permits Issued
(Can$ tn, sa)



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2004	2005	2006	Latest
GDP (wda)	2.0	1.2	2.0	2.2 Q4
Industrial Production	2.5	0.1	0.4	-0.3 Jan**
Construction Production	4.3	4.6	5.3	-1.6 Jan**
Construction Investment	3.0	2.3	4.0	5.2 Q4
Consumer Prices - Harmonised Index***	2.3	1.9	1.9	1.2 Feb
Producer Prices - Manufactured Goods***	1.2	1.8	2.5	2.9 Jan
Hourly Earnings - Manufacturing (*ouvriers*)***	2.7	2.9		2.8 Q3
Standardised Unemployment Rate (%)	9.6	9.7	9.1	8.4 Jan
Current Account Balance (€bn)	2.1	-19.2	-25.3	
as a percentage of GDP	0.1	-1.1	-1.4	
Real Effective Exchange Rate Index§	110.3	108.8	108.1	108.6 Feb

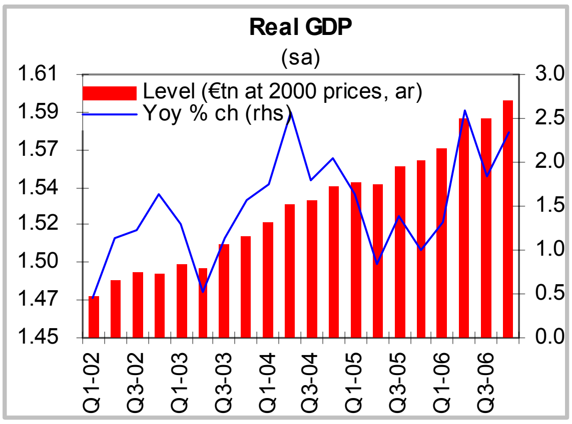
Notes:
* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; § 2000=100

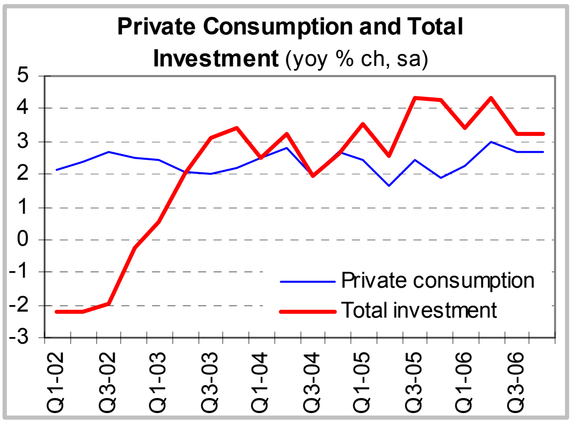
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	3.82 Feb
Long Term Interest Rate pa (benchmark 10y)	4.10	3.41	3.80	4.10 Feb
Stock Exchange (CAC) Index (% ch)*	18.2	15.8	19.7	0.2 28/3/07**

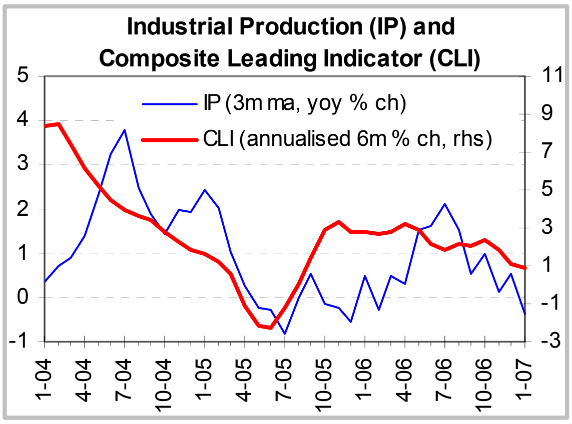
Notes:
*Average over year; ** % change on 31/12/06
Sources: OECD, Banque de France, INSEE, BIS, daily press

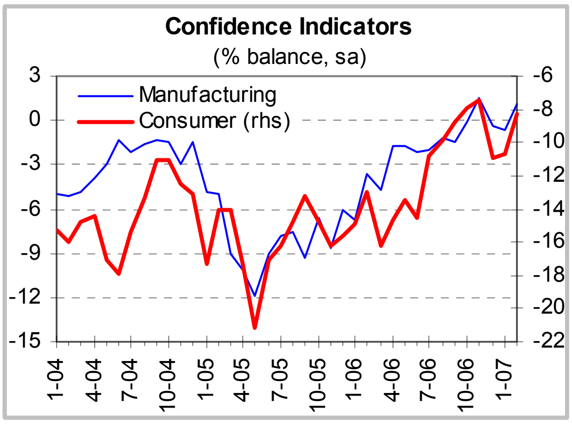
- Following a disappointing stagnant Q3 the French economy regained some momentum in the final months of 2006 as GDP grew by 0.7% q-o-q, albeit insufficient to prevent a 2006 figure well below the euro area average. The widely accounted for recovery in Q4 featured an unexpected deceleration in household consumption (+0.4% q-o-q down from 0.9% in Q4) and a relatively strong contribution from net trade which added 0.3% to quarterly growth. The bulk of the strength came from fixed investment (up to 1.1% q-o-q after 0.6% q-o-q in Q3) driven by a marked rebound in government investment (to 2.1% q-o-q). Heavy destocking contributed negatively to GDP growth.
- Exports have benefited in Q4 06 from a strengthening in demand from the euro area, particularly from Germany in the wake of the perspective hike in the VAT in Q1 07, as well as of a bounce back in Airbus' exports. However, the loss of competitiveness of French manufactures continues to be a key issue, the result of the lack of major structural reforms and also of the 35-hours week law. The industrial sector has weakened significantly in recent months although confidence indicators have been pointing upwards for a long while.
- Recent retail sales data seem to confirm that some weakening in the household consumption trend is on track. Confidence indicators, overall labour market conditions and inflation developments however remain supportive of relatively good consumption patterns.
- As for employment, however, a more in depth analysis of Q4 06 data reveal that the French private sector continues to struggle to generate employment and that the employment growth rates seen in 2005 and in 2006 were insufficient to explain the fast decline in the unemployment rate over the same period, which currently stands at 8.4%. This suggests that the improvement in the unemployment rate has been mainly driven by factors other than actual job creation in the private sector, e.g. the government's subsidised job plan, demographics and possibly statistical issues related to the delay in the regular annual review of the jobless figures.
- Public finances data was encouraging in 2006, suggesting that the budget deficit remained below the 3.0% of GDP mark for the second year in a row. Nevertheless, the 2006 improvement was mainly due to privatisation proceeds (the government sold stakes in Alstom and Aéroports de Paris), and significant corporate tax revenues, which were boosted by a new measure that forced firms to make early tax payments. Consequently, optimism should not be overstated.

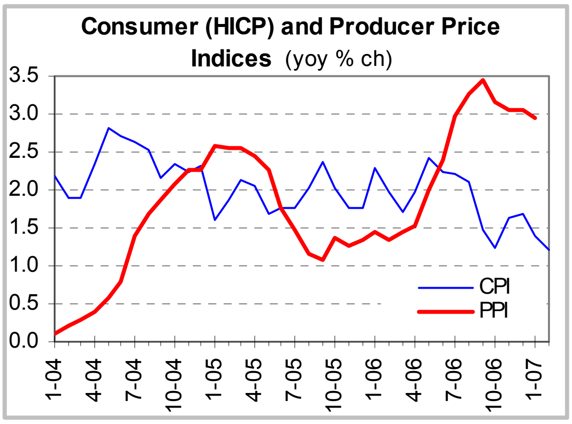
FRANCE

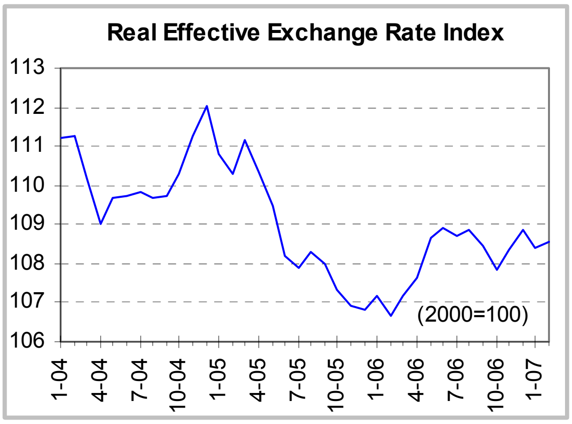


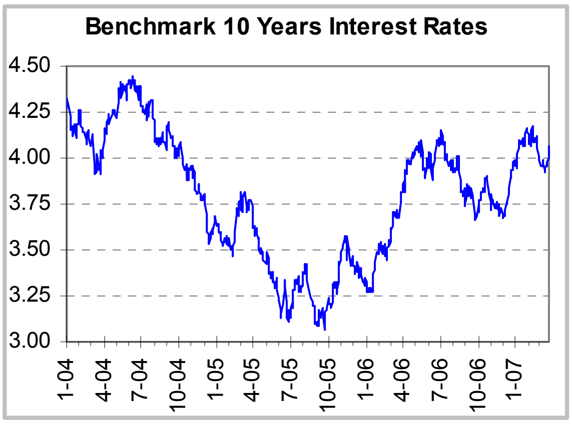


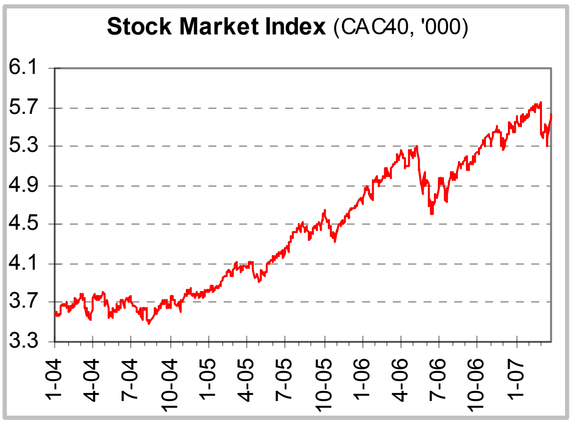






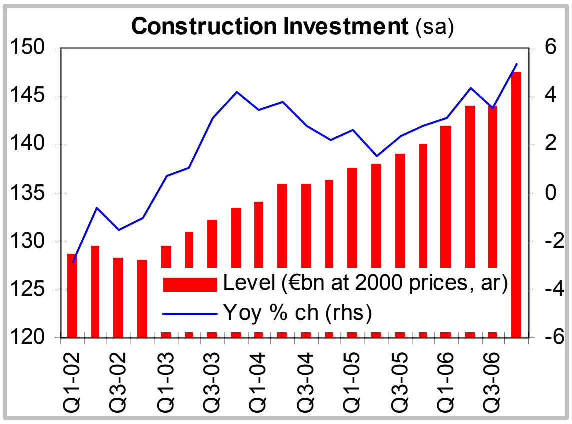


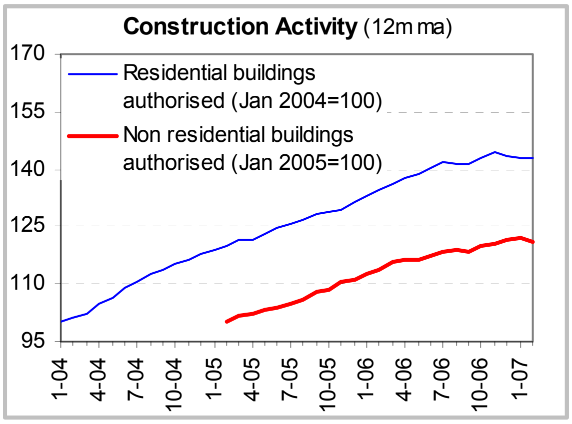


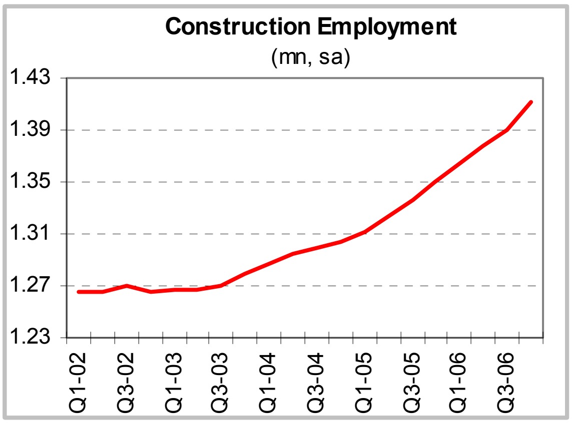


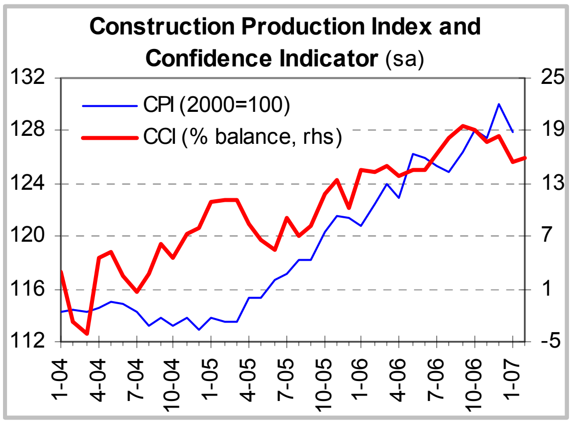
Sources: OECD, INSEE, BIS, daily press

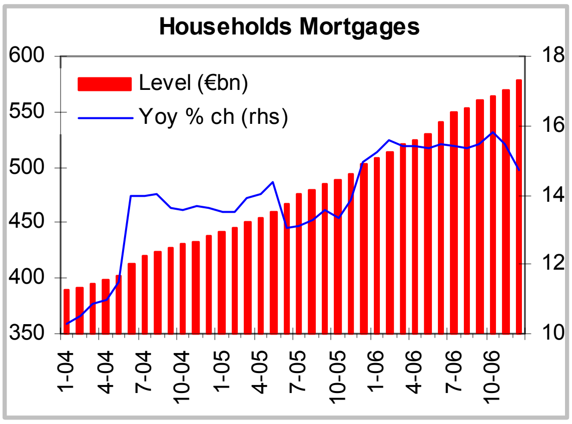
Business Conditions in the Construction Sector

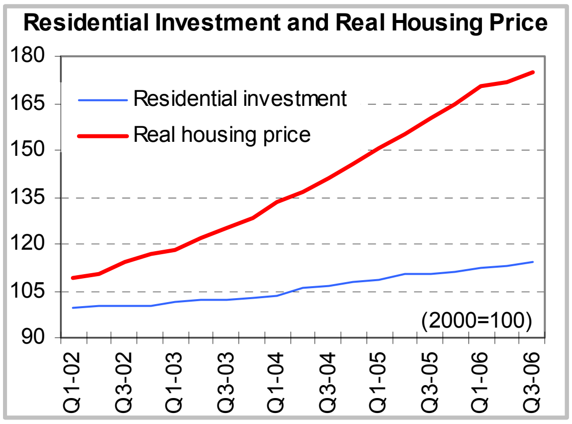












Sources: OECD, Ministère de l'Equipement, INSEE, European Commission, Banque de France

- In 2006, the construction sector has continued to perform brilliantly (+4% on average, yielding a carry-over of 2.2%) thanks to a record performance in Q4 06 (+5.3% y-o-y and +2.5% q-o-q).
- As for residential construction, housing's macroeconomic fundamentals are supporting the sector. As a matter of fact, households' disposable income is still growing at fairly good pace while long term rates are stabilising. The sector is also boosted by the government tax-based schemes (e.g. De Robien and Borloo). On the negative side, credit terms are becoming more stringent and the sharp rise in both household debt and the borrower risk has started to bite.
- As for civil works, good news are coming from the new set of agreements, known as State-Region Project Agreements, which is scheduled to get underway in 2007 and continue until 2013.
- Positive signals keeps coming from the non residential sector thanks to increasing demand of offices and commercial and industrial buildings.

BELGIUM

Real Indicators*	**2004**	**2005**	**2006**	**Latest**
GDP (wda)	2.7	1.5	3.0	2.9 Q4
Industrial Production	3.2	-0.4	5.1	-0.1 Jan
Construction Production	-1.8	-3.4	3.1	-3.0 Jan
Construction (Gross Value Added)	4.6	1.8		9.0 Q3
Consumer Prices – Harmonised Index***	1.9	2.5	2.3	1.8 Feb
Producer Prices***	4.3	2.7	5.0	2.7 Jan
Hourly Earnings-Industry***	2.2	2.5	2.2	2.3 Q1
Standardised Unemployment Rate (%)	8.4	8.4	8.2	7.8 Jan
Current Account Balance (bn €)	10.1	7.5		5.5 Q3°
as a percentage of GDP	3.5	2.5		1.8
Real Effective Exchange Rate Index§	109.2	109.2	108.8	109.3 Feb

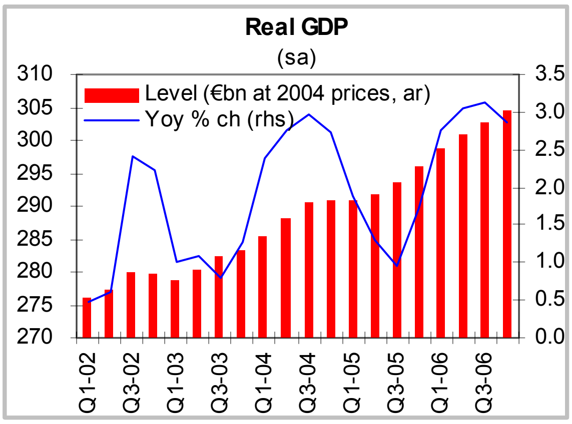
Notes:
* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° Latest 12 months up to Q3 included; § 2000=100

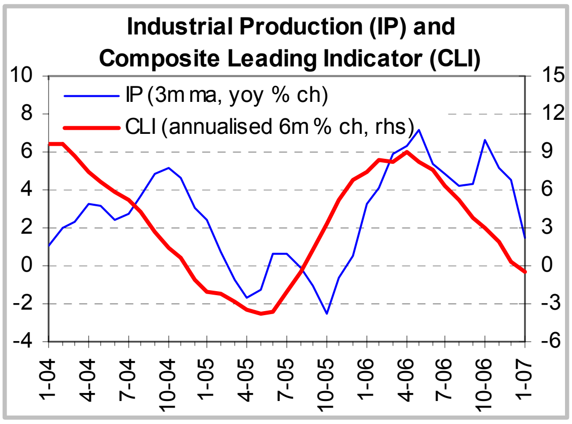
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	3.82 Feb
Long Term Interest Rate pa (benchmark 10y)	4.06	3.37	3.81	4.11 Feb
Stock Exchange (BEL20) Index (% ch)*	29.4	25.0	22.2	1.2 28/3/07**

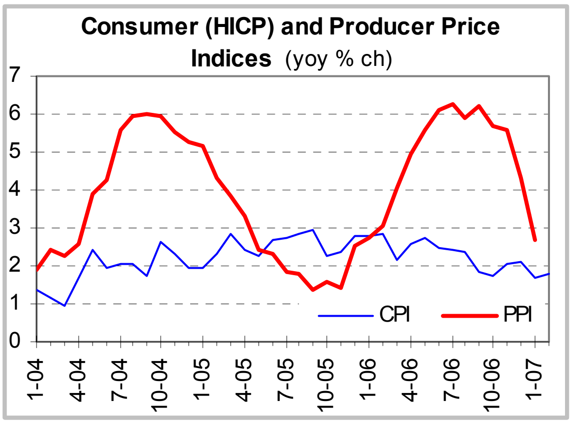
Notes:
* Average over year; ** % change on 31/12/06
Sources: OECD, Institut National de Statistique, Banque National de Belgique, , BIS, daily press

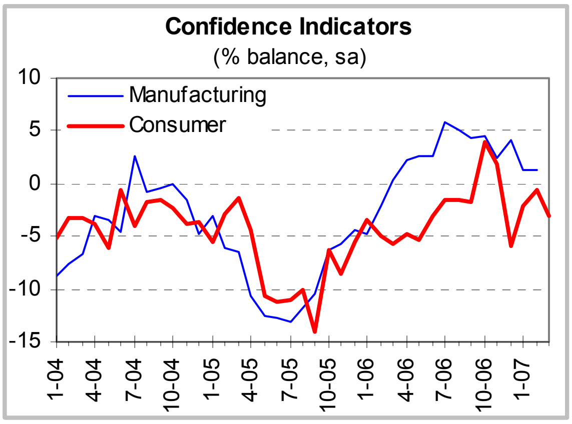
- Mirroring improved performance in the euro zone, the Belgian economy performed in 2006 at its best since the end of 2000.
- Private consumption has strengthened in 2006, rising 2.3% y-o-y in the first three quarters of the year. Investment activity was particularly buoyant in Q3 06 as both government and business spending accelerated rapidly. Indeed, gross fixed capital formation was up 6.7% y-o-y in Q3 06. The construction sector, in particular, achieved very high growth, up almost 8.0% y-o-y in the first three quarters of 2006 compared to about 2.0% in 2005.
- However, according to the March National Bank of Belgium's surveys, business climate deteriorated in manufacturing industry, in business-related services and, to a lesser extent, in the building industry. In trade, on the other hand, the gross indicator improved somewhat. The consumer confidence indicator deteriorated somewhat in March as consumers took a less bright view regarding the future economic situation. Furthermore their expectations concerning households' financial situation and savings capacity declined only slightly.
- Also trade strengthened during 2006. Exports of goods and services increased by 7.4% y-o-y in Q3 06, up from 3.0% y-o-y in the previous quarter. Import also accelerated to 6.3% y-o-y in Q3 06, from 3.0% y-o-y in H1 06.
- The 2007 budget contains fewer one-off measures than the preceding budget, but it is again relying on the sale of government-owned buildings to generate revenue. In addition, due to lowered income tax and social security contributions overall government revenues are likely to fall in 2007-08. The debt/GDP ratio is expected to fall further from 89.2% at the end of 2006 (compared with 138% in 1993).

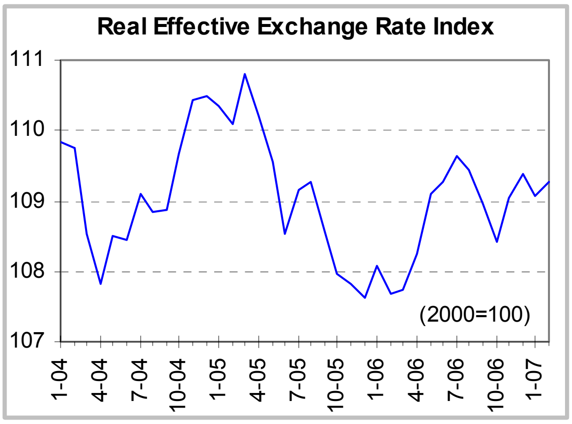
BELGIUM

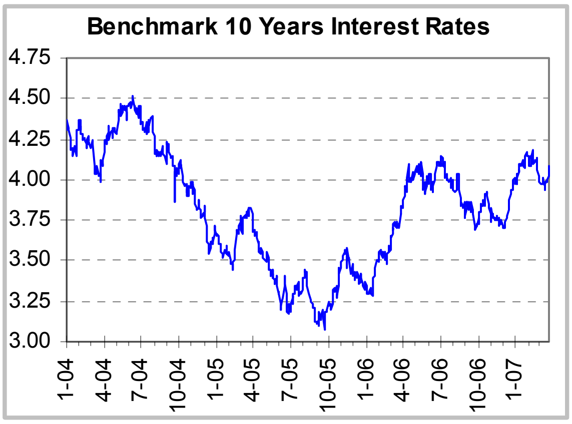


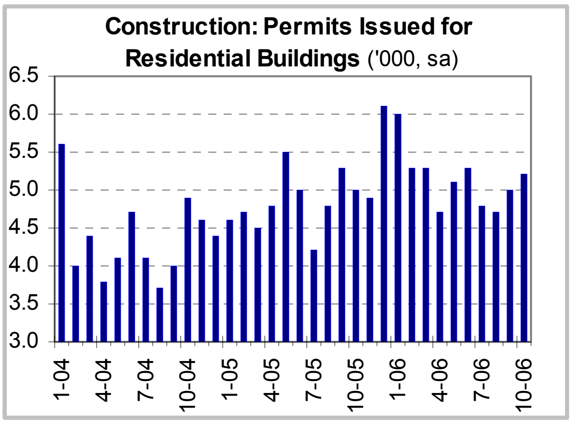


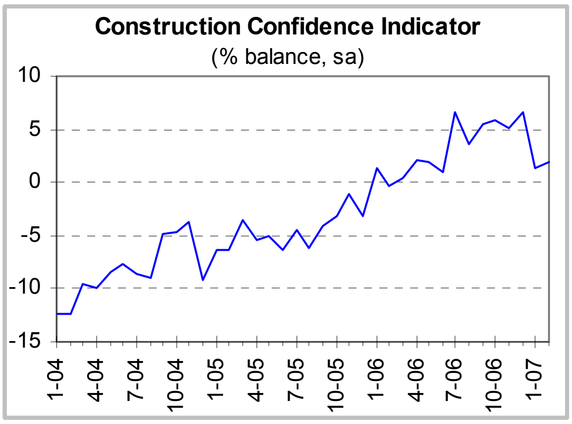












Sources: OECD, European Commission, Belgostat, BIS, daily press

ITALY

Real Indicators*	2004	2005	2006	Latest
GDP (wda)	1.0	0.2	1.9	2.8 Q4
Industrial Production	-0.6	-0.8	2.3	-1.4 Jan
Construction Investment	1.1	0.6	2.2	4.2 Q4
Consumer Prices – Harmonised Index***	2.3	2.2	2.2	2.1 Feb
Producer Prices - Manufacturing***	2.7	4.0	5.6	4.0 Feb
Hourly Rates - Industry, excl.Construction***	3.0	2.6	3.2	3.7 Dec
Standardised Unemployment Rate (%)	8.0	7.7	6.8	6.5 Q4
Current Account Balance (€bn)	-12.5	-21.9	-35.2	
as a percentage of GDP	-0.9	-1.5	-2.4	
Real Effective Exchange Rate Index§	112.5	110.8	110.4	111.0 Feb

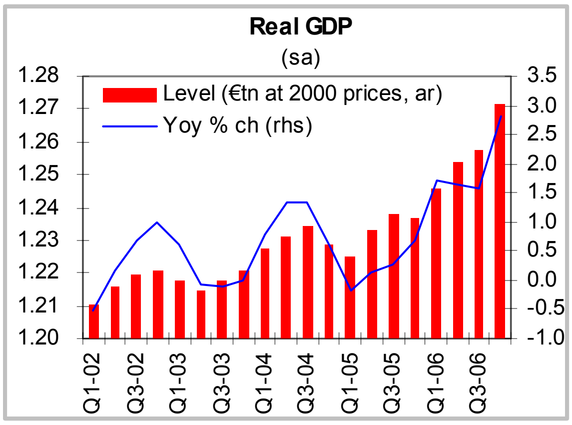
Notes:
* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; § 2000=100

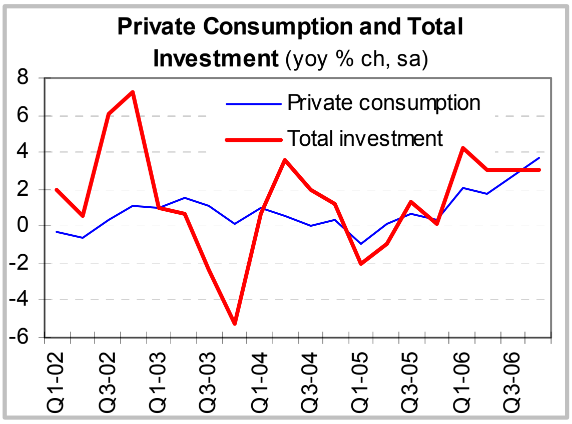
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	3.82 Feb
Long Term Interest Rate pa (benchmark 10y)	4.26	3.56	4.05	4.28 Feb
Stock Exchange (MIBTEL) Index (% ch)*	15.1	18.9	15.6	0.6 28/3/07**

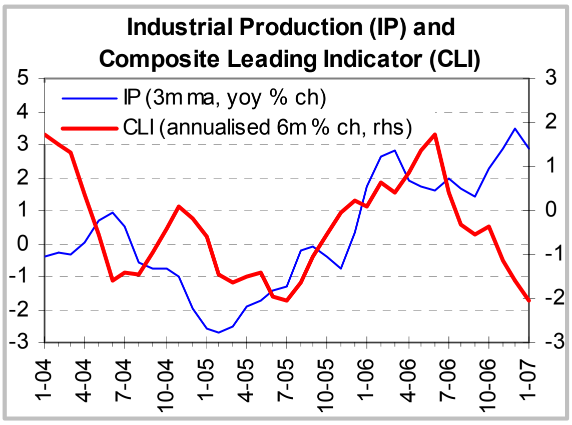
Notes:
* Average over year; ** % change on 31/12/06
Sources: OECD, ISTAT, BIS, daily press

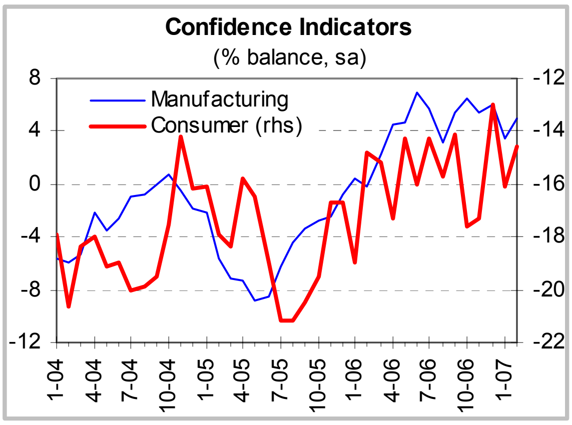
- Italy's Q4 06 national accounts data surprised on the upside as no one had expected such a strong performance, public and private institutions alike. Over the whole 2006 GDP grew by just under 2.0%, the best result since 2000, while a q-o-q figure such as the 1.1% recorded in Q4 06 cannot be traced back until Q4 99. Incidentally, this yields a carry-over of 1.2% into 2007 although the sensible fiscal tightening of last year coupled with the ongoing monetary restriction at the euro area level casts some shadow on this year economic performance.
- Growth was broad based although from the supply side it has mainly resulted from a substantial acceleration in manufacturing value added (+3.5% in 2006 following average annual falls of 1.7% since 2000). The good news is that also productivity and employment in manufacturing have accelerated signalling that the sector has successfully undergone substantial restructuring in the past few years at least in industries mostly exposed to external competition and competitive pressure.
- From the expenditure side, GDP growth was driven by household consumption and export, which contributed 0.9% and 1.3% respectively to the whole year expansion. Consumption was supported by a very mild inflationary environment, by favourable disposable income developments and by a revived impetus in employment creation. Export benefited from strong euro area demand, particularly from Germany ahead of the VAT hike in Q1 07. Also investment performed positively, albeit not so robustly at 2.4% for the whole year, but ended 2006 on an upward trend.
- The economy entered the current year on a softer note as the industrial sector is in part absorbing the strong inventory accumulation of H2 06 and external demand is slowing. Confidence levels remain upwardly oriented although quite volatile. Some doubt may concerns the resilience of households' consumption as it ended the year at a decelerating pace.
- The 2006 fiscal deficit was lower than expected at 4.4% of GDP, thanks to strong revenue growth. Remarkably, it would have been even better (2.4%) excluding one-off expenses (primarily the VAT tax refund on corporate motor vehicles, the effect of an unfavourable sentence issued by the European Court of Justice on VAT deductibility worth around 1.2% of GDP). Reluctance to cut spending and pressure to lower taxes as soon as possible on the back of the unexpected fiscal windfall of 2006 are a source of concern for the continuation of the virtuous fiscal trends of 2006.

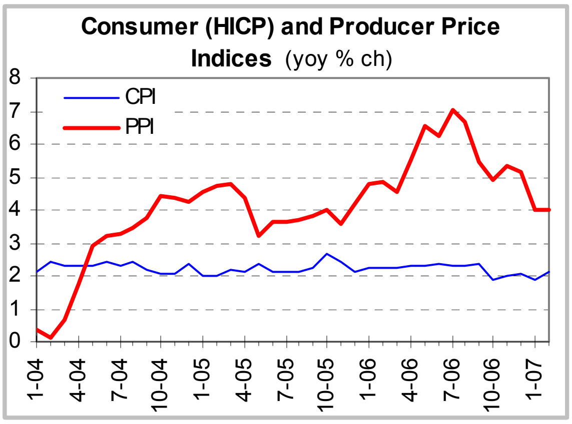
ITALY

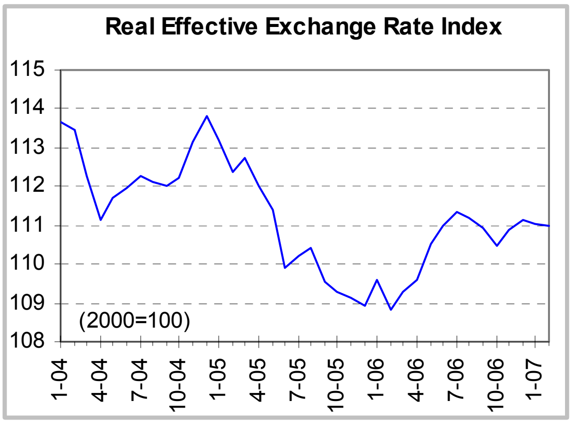


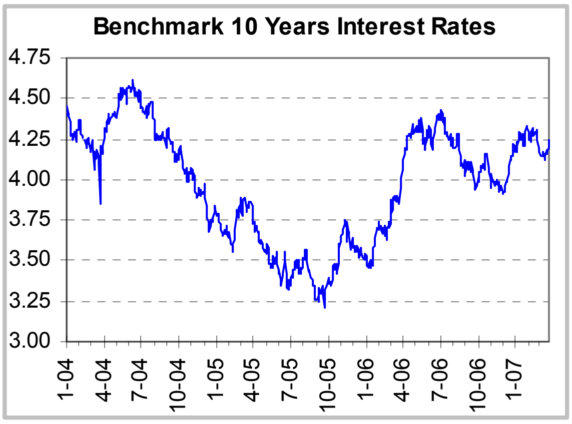


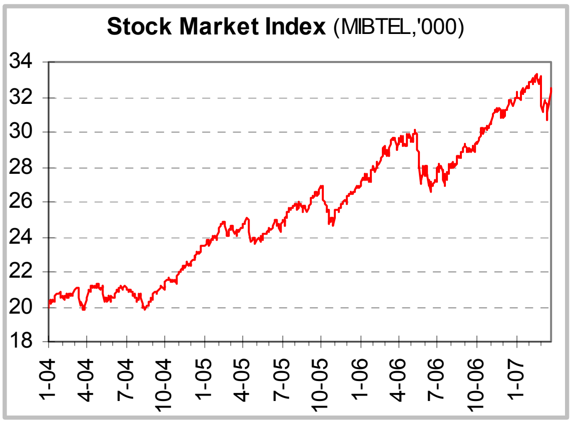






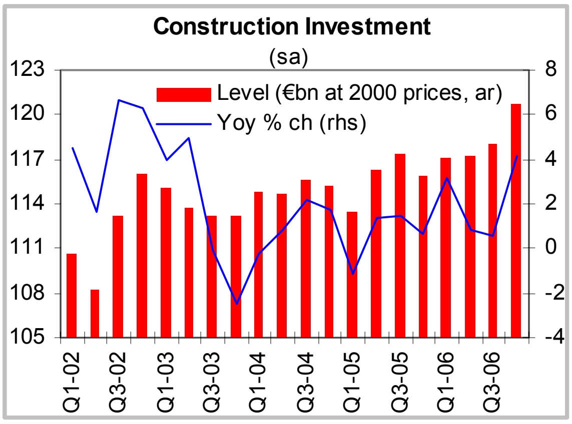


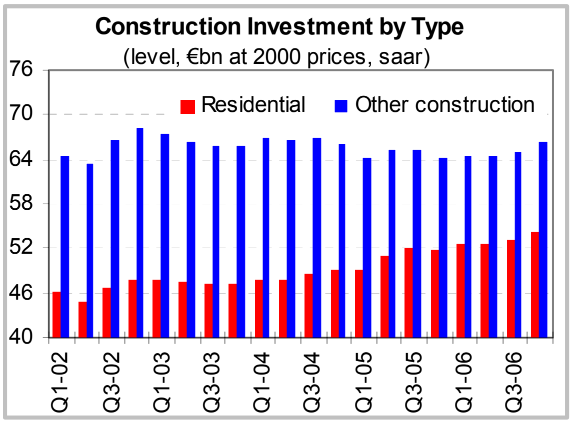


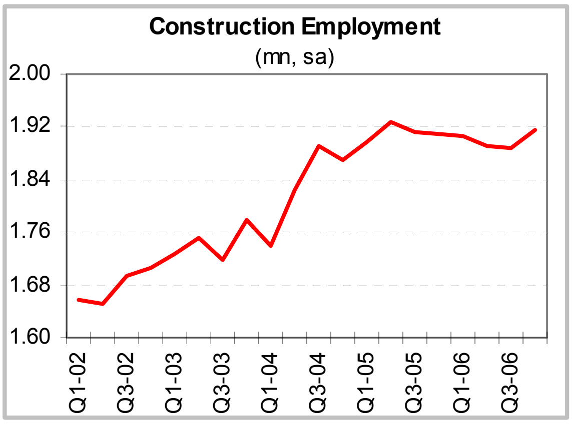


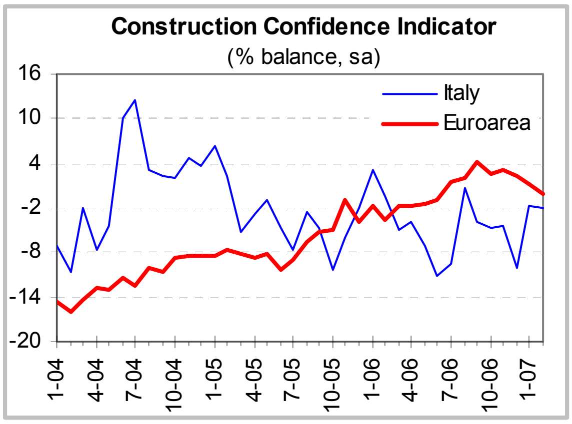
Sources: OECD, ISTAT, BIS, daily press

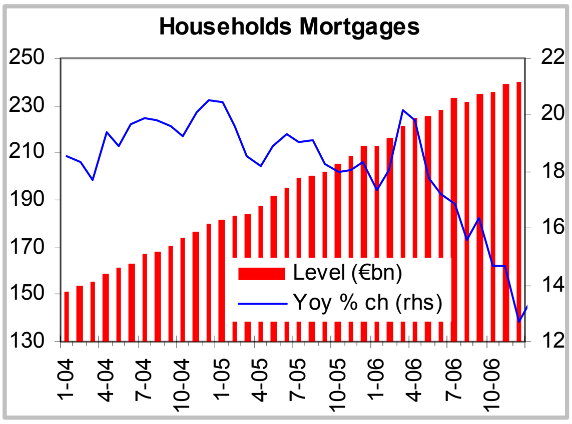
Business Conditions in the Construction Sector

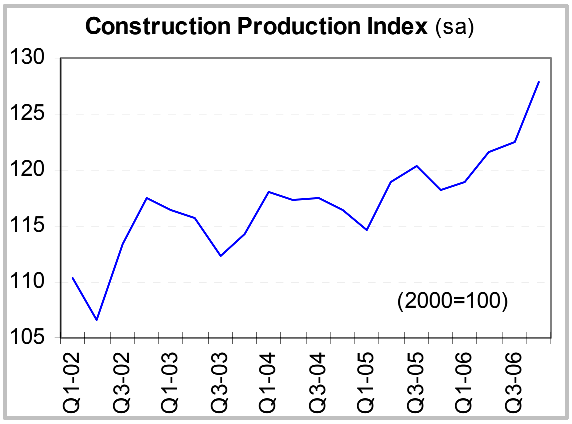












Sources: ISTAT, European Commission, Banca d'Italia

- Q4 06 construction outcomes have been particularly buoyant (4.2% y-o-y and 2.3% q-o-q), thus adding up to a better than expected result for the whole 2006 (+2.2%). An upward revision of the carry-over effect as well as a more supportive macroeconomic environment are helping shaping a more favourable construction outlook also for the current year.
- Housing activity is still well on track (+4.8% y-o-y, +2.2% q-o-q in Q4 06), though signs of a slow-down are looming: housing prices are stabilising, the time span needed to sell an apartment is widening, and the increase in households mortgages is slowing down sharply. Construction entrepreneurs indicate demand side shortages as the main problem for building activity.
- Despite budget increases in funding for infrastructures, uncertainties related to public works for the current year remain particularly marked due to stringent constraints to investments imposed by local bodies, coupled with strong divergences among the ruling coalition on the launching of some major works.

SPAIN

Real Indicators*	**2004**	**2005**	**2006**	**Latest**
GDP (wda)	3.3	3.5	3.8	4.0 Q4
Industrial Production	1.5	0.8	3.9	0.5 Jan**
Construction Investment	5.5	6.0	5.9	5.7 Q4
Consumer Prices – Harmonised Index***	3.1	3.4	3.6	2.5 Feb
Producer Prices - Manufacturing***	3.4	4.9	5.3	2.5 Feb
Hourly Earnings***	4.0	3.5		4.3 Q3
Standardised Unemployment Rate (%)	10.6	9.2	8.6	8.6 Jan
Current Account Balance (€bn)	-44.2	-66.6		-81.2 Q3°
as a percentage of GDP	-5.3	-7.4		-8.5
Real Effective Exchange Rate Index§	113.8	114.3	115.8	116.0 Feb

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

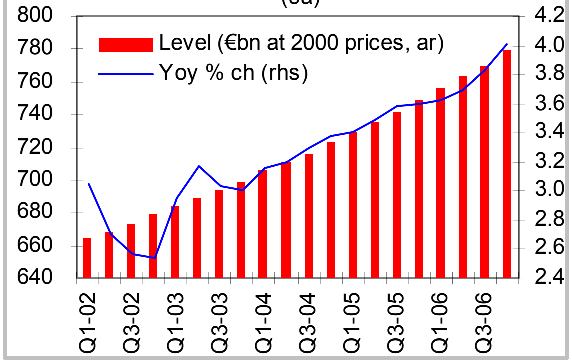
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.11	2.18	3.08	3.82 Feb
Long Term Interest Rate pa (benchmark 10y)	4.10	3.39	3.78	4.10 Feb
Stock Exchange (MSE) Index (% ch)*	22.3	23.3	24.9	3.3 28/3/07**

Notes:
* Average over year; ** % change on 31/12/06
Sources: OECD, INE, BIS, daily press

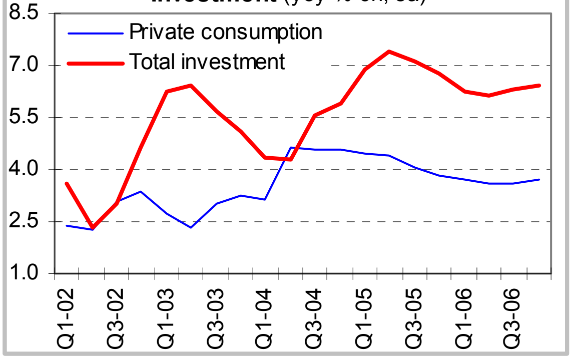
- Real GDP continued to grow robustly in the final quarter of 2006 (1.2% q-o-q and 4.0% y-o-y), and at its fastest annual rate since the first quarter of 2000. Meanwhile, available indicators suggest that the economic activity has remained brisk also in the first quarter of 2007.
- The breakdown of GDP data shows that robust domestic demand was the main engine of growth (+4.9% y-o-y in Q4 06), supported primarily by further household income gains arising from continued employment creation. Low interest rates and rising housing wealth were also key supporting factors. There were also significant contributions from government consumption, and gross fixed investment, particularly from construction activity (see below).
- The overall inflation situation has improved. The annual rate of consumer price inflation was unchanged at 2.5% in February, but lower than 2.7% in December. Worryingly, core consumer price inflation remained high, 2.8% in February, significantly above the euro zone average.
- The export performance was remarkable (+2.5% q-o-q in Q4 06), boosted by firm domestic spending across the euro zone, particularly from Germany. As imports were stronger (+3.6% in Q4 06), net exports remained a drag on growth.
- Another source of concern is households' borrowing, whose continuing growth has slowed only marginally in response to tighter financial conditions. Moreover, while growth in mortgage lending slowed down somewhat, non-mortgage credit accelerated to a four-year high, which could lead to further overheating of domestic demand in the near term.
- Healthy government finances, coupled with strong economic growth, have paved the way for an expansionary budget in 2007. The government plans to expand central government spending by 7.6% in nominal terms in 2007, with bigger increases planned for education and housing.

SPAIN

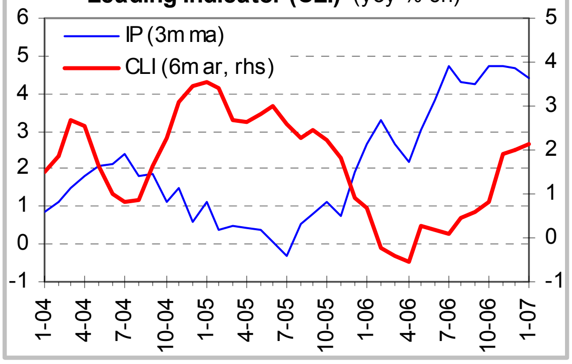
Real GDP
(sa)



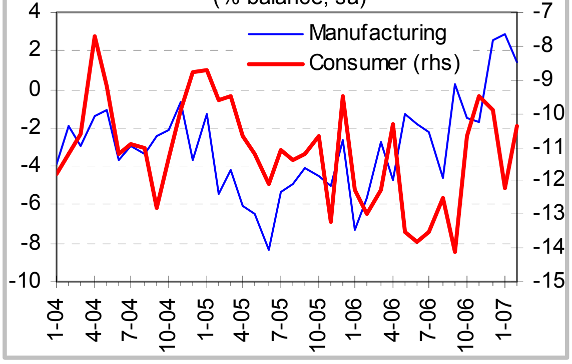
Private Consumption and Total Investment (yoy % ch, sa)



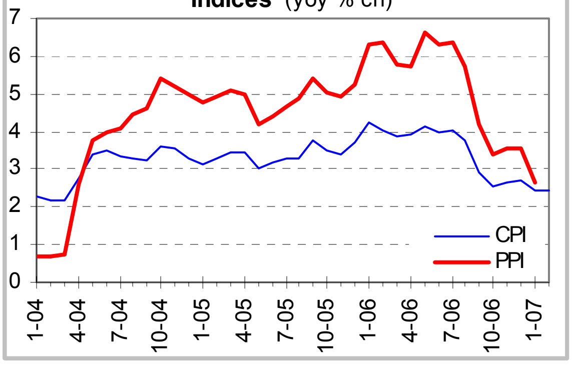
Industrial Production (IP) and Composite Leading Indicator (CLI) (yoy % ch)



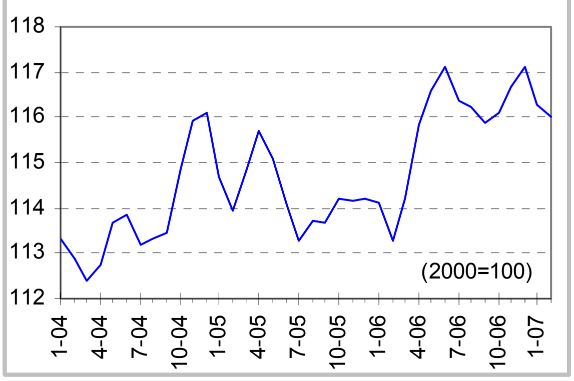
Confidence Indicators
(% balance, sa)



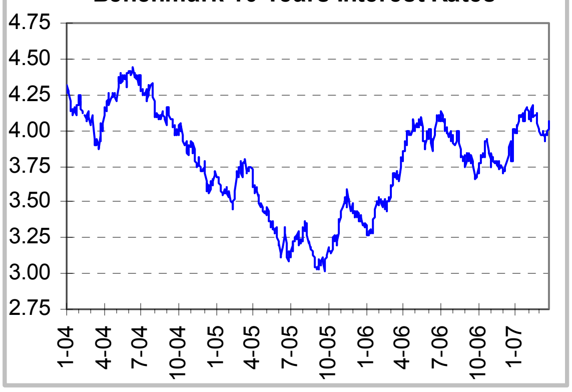
Consumer (HICP) and Producer Price Indices (yoy % ch)



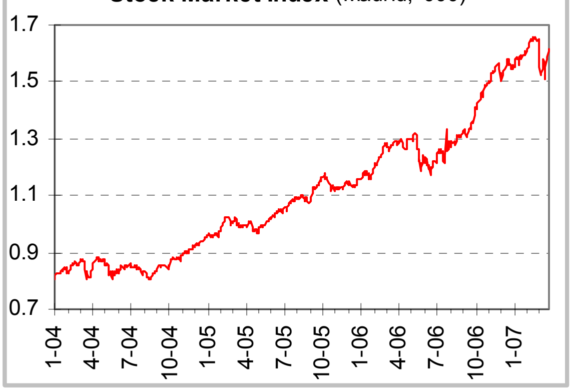
Real Effective Exchange Rate Index



Benchmark 10 Years Interest Rates



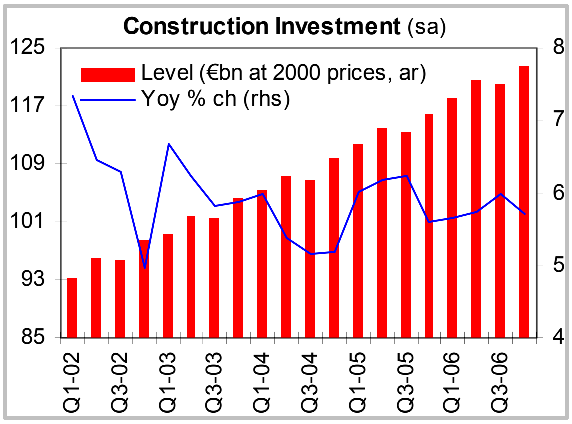
Stock Market Index (Madrid, '000)

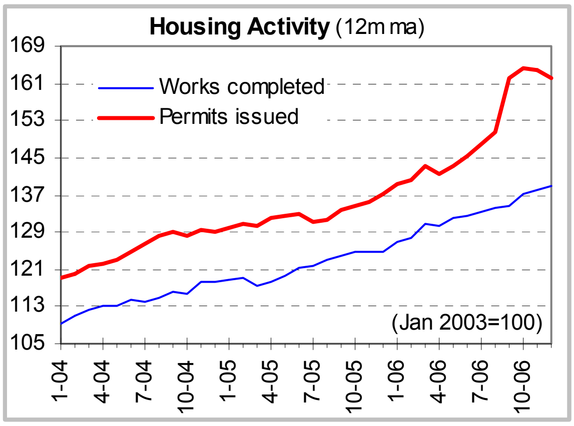


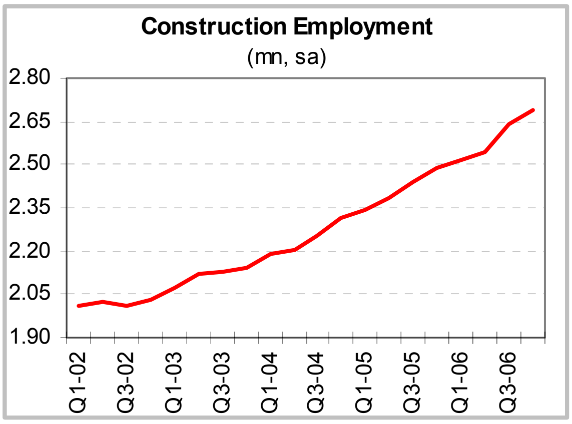
Sources: OECD, INE, BIS, daily press

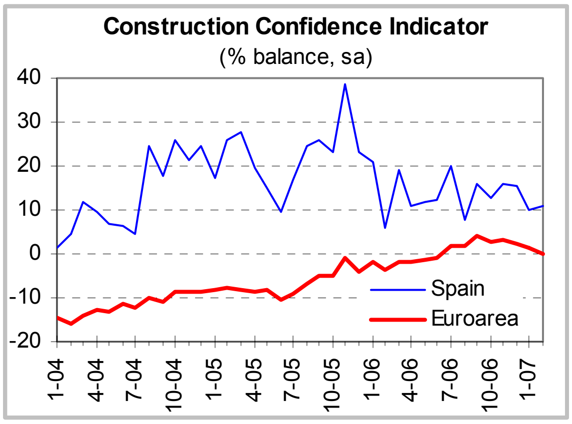
SPAIN

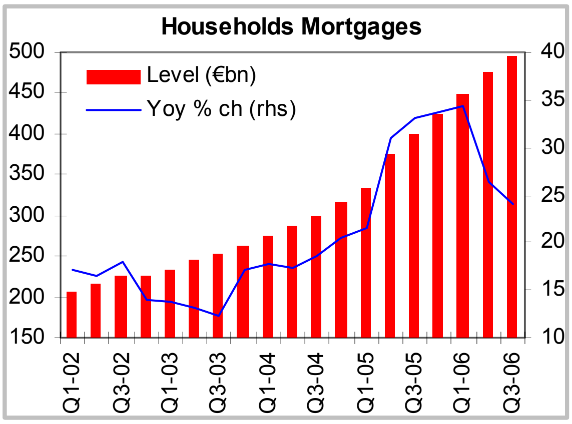
Business Conditions in the Construction Sector

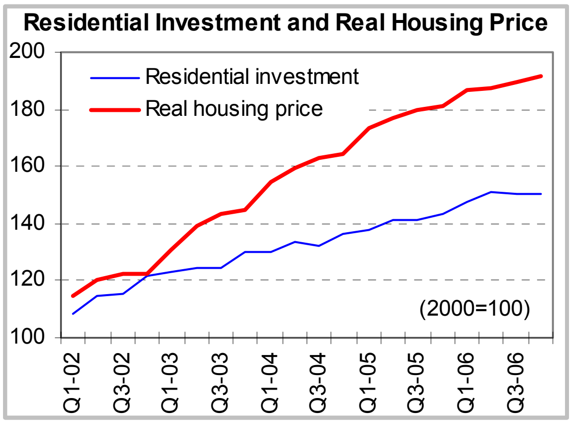












Sources: INE, European Commission, Banco de Espana, OECD

- Construction investment grew at a very robust pace in 2006 (+5.7% with a carry-over of 1.9%).
- In February business conditions in construction remained favourable and the composite business climate indicator rose marginally. At the same time expectations about the business situation among construction enterprises over the next six months point to a slower rate of growth.
- The steady increase of employment and, to a lesser extent, foreign investment in housing are continuing to be supportive for housing, while concerns are mounting as affordability ratios are deteriorating (due to less favourable financial conditions and still positive house price increases). In addition, permits issued are declining and the carry-over effect for 2007 is the lowest since 1993 (+0.3%).
- Private non residential investment is continuing to perform well thanks to the healthy activity in the service sector (commerce, offices, tourism and leisure).
- Also public works remain buoyant. In particular, the new Government Strategic Plan for Rail-road Infrastructure has earmarked € 23.4bn for investment until 2010. In addition, there are € 18bn committed to the expansion and improvement of 48 airports.

GREECE

Real Indicators*	**2004**	**2005**	**2006**	**Latest**
GDP	4.7	3.8	4.3	4.4 Q4
Industrial Production	0.9	-0.7	1.0	4.7 Dec**
Construction Investment	3.7	-4.5		
Consumer Prices – Harmonised Index***	3.0	3.5	3.3	3.0 Feb
Producer Prices***	3.7	5.4	6.4	0.2 Feb
Standardised Unemployment Rate (%)	10.5	9.9	8.9	8.8 Q4
Current Account Balance (€bn)	-10.9	-14.4	-23.6	
as a percentage of GDP	-5.1	-6.3	-9.6	
Real Effective Exchange Rate Index§	113.3	113.1	113.8	113.5 Feb

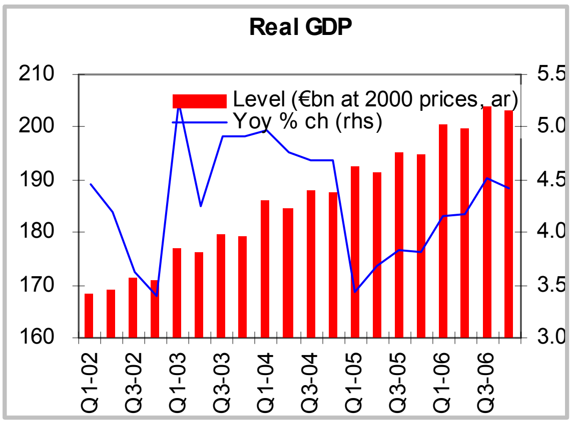
Notes:
* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; § 2000=100

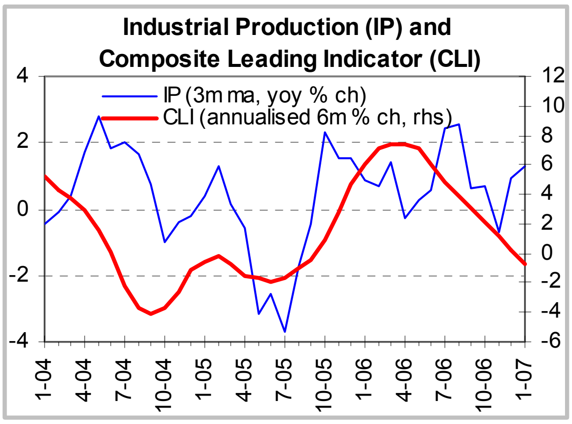
Financial Indicators				
Short Term Interest Rate pa	2.11	2.18	3.08	3.82 Feb
Long Term Interest Rate pa (benchmark 10y)	4.26	3.59	4.07	4.30 Feb
Stock Exchange (ASE) Index (% ch)*	27.5	29.4	26.8	4.8 28/3/07**

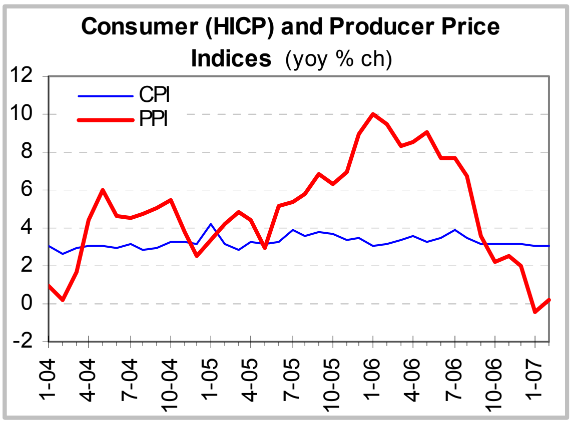
Notes:
* Average over year; ** % change on 31/12/06
Sources: OECD, National Bank of Greece, BIS, daily press

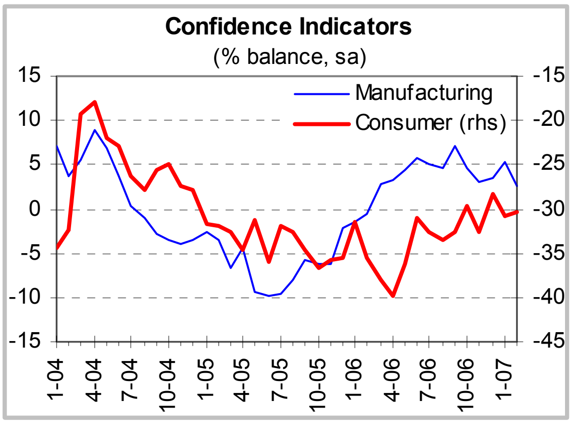
- The Greek economy kept considerable momentum in Q4 06, expanding by 4.4% y-o-y. Over the full year the pace of economy expansion accelerated in 2006 to 4.3%, driven by domestic demand.
- Investment activity increased by 10.6% y-o-y in the last quarter of 2006, up from 7.6% y-o-y in Q3, thus reflecting improved business conditions. Indeed, industrial production increased by 1% in 2006 compared to a 0.7% contraction in 2005. Moreover, there was also evidence of a strong performance in the services sector, as indicated by a strong inflow of tourists and a steady improvement in leading confidence indicators.
- The drawback of the resumption of very strong investment expenditure has been stronger import that expanded by 8.9% y-o-y in Q4 06 and by 6.9% in 2006 as a whole. Exports grew by 7.9% y-o-y. As a consequence, the full-year current-account deficit jumped to 12.1% of GDP, compared with 8.1% in 2005.
- Although February saw the lowest rate of annual inflation in nearly three years (+3% y-o-y), it remained well above the euro zone average (+1.8% y-o-y), reflecting stronger growth in prices in the non-traded goods and services sector.
- A successful implementation of the 2007 budget would ensure that the headline deficit fell to around 2.4% of GDP. Revenues are expected to grow strongly helped by privatisations and state asset sales, which will include the listing of gas company DEPA, the sale of the government's stake in OTE telecoms firm and Athens Airport.
- Based on still positive macroeconomic conditions and a high volume of permits issued during 2006, residential activity remains upbeat. As for public investment, concern exists regarding the ability of the public administration, under strict time constraints, to utilise the full amount of resources available for the full implementation of the CSF III.

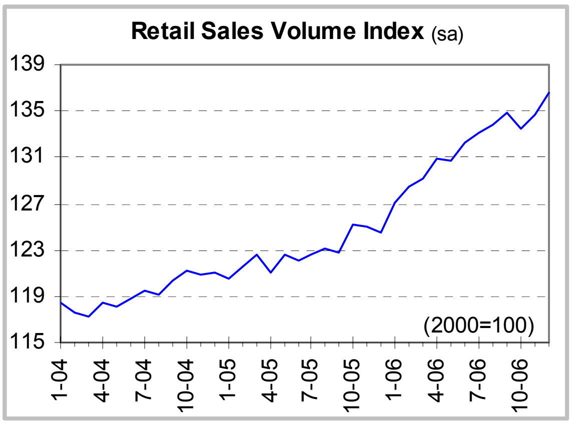
GREECE

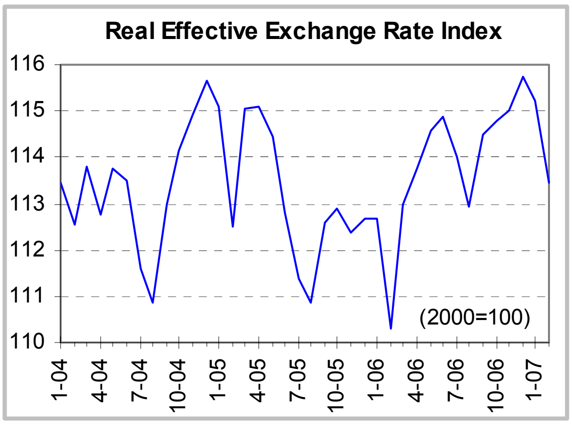


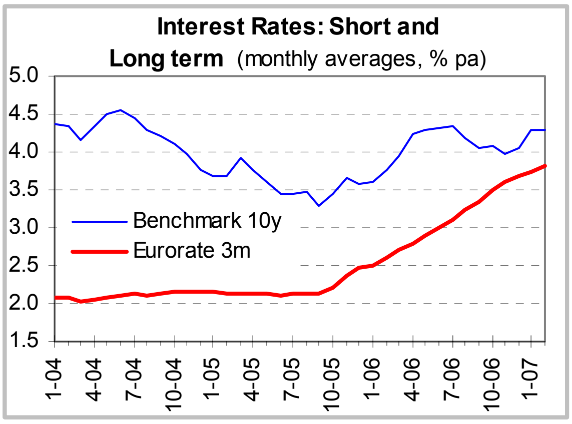


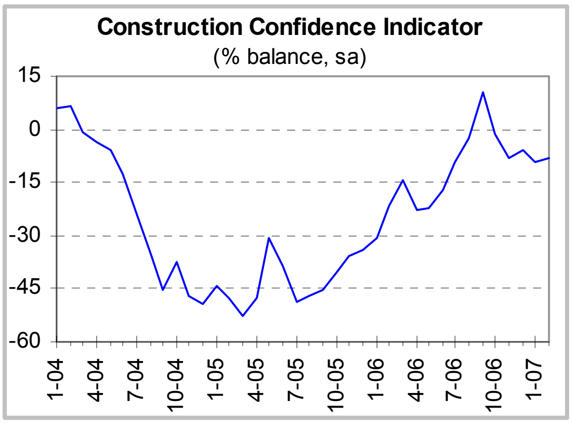












Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	**2004**	**2005**	**2006**	**Latest**
GDP	5.7	5.5		6.7 Q3
Gross Fixed Capital Investment	13.5	19.0		15.9 Q3
Industrial Production - Manufacturing	21.2	8.1	7.3	9.3 Jan
Consumer Prices	6.1	5.0	7.3	4.5 Feb
Producer Prices	6.0	6.9	9.2	7.7 Jan
Unemployment Rate (%)	12.7	11.5	9.6	9.7 Jan
Current Account Balance (US$bn)	-1.4	-3.0	-4.9	
as a percentage of GDP	-5.8	-11.3		-13.6 Q3**
Real Effective Exchange Rate Index§	120.2	121.1	126.5	134.8 Feb

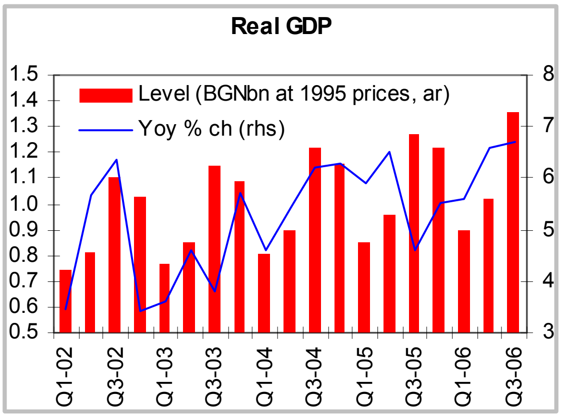
Notes:
* yoy % ch, nsa, unless otherwise indicated; ** Latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (interbank)	2.0	2.1	2.8	3.6 Jan
Government Bond Yields (<1 year) pa	2.7	2.3	2.7	3.5 Jan
Long Term Interest Rate pa (benchmark 10y)	5.4	3.9	4.2	4.2 Feb

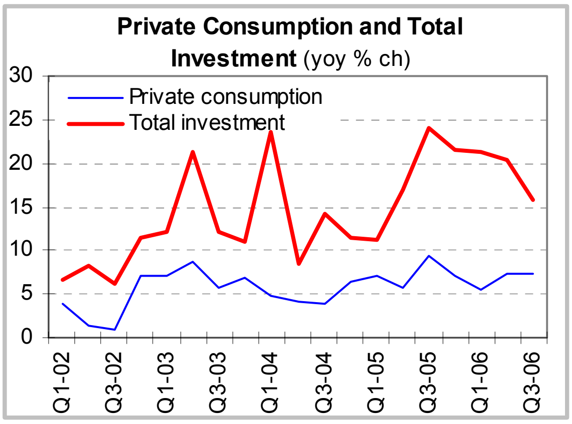
Sources: National Statistics Institute, BIS, National Bank of Bulgaria

- GDP growth accelerated slightly on a y-o-y basis in Q3 06. Cumulatively, for the first three quarters of 2006, GDP grew at 6.3%. Some recent data suggests that the pace of economic activity has remained robust in Q4 06 as well.
- Real wages and household incomes have been rising quickly and significant progress has been made in bringing down the rate of unemployment. Households' consumption has thus remained the key driver of economic growth: personal consumption grew at 7.4% y-o-y in Q3 06. A wider access to consumer credit has helped to boost retail sales growth (+15.9% in December).
- Gross fixed capital formation grew at an impressive 18.9% in the first three quarters of 2006 up from 17.8% a year earlier. Business confidence buoyed by continued strong performance of exports, thanks in part to the pickup in growth of aggregate demand in Western Europe, while domestic demand has been surging as well. The accession to the European Union (EU) at the beginning of 2007 also boosted expectations.
- According to the National Statistics Institute, consumer prices amounted to only 4.5% in February, down from 7.2% in January. Prices for alcoholic beverages and tobacco were boosted by sharp increases in excise duties in 2006. This provided a high base of comparison in the year earlier, pushing down the current y-o-y inflation. Continued upward adjustment of administered prices towards cost-recovery levels, particularly for electric power, together with steady growth in nominal wages, tilt inflation risks on the upside.
- Despite sustainable strengthening of export growth, the current account (CA) balance remains the major source of vulnerability of the economy. The CA deficit widened to 12.9% of GDP in the period of January to November against 9.4% in 2005. On the positive side, foreign direct investment (FDI) continued to break records reaching 13.4% of projected GDP in November 2006.
- According to the National Statistic Institute business surveys, expectations about business situation among construction enterprises over the next six months are strongly optimistic. The continuing boom of the construction sector is fuelled by huge FDI inflows. Namely, the residential segment is continuing to benefit from hefty inflows particularly for mountain buildings and sea resorts. FDI are also boosting the non residential segment particularly as far as commercial and tourist buildings are concerned. In addition, public works are benefiting from several infrastructure projects, such as the development of the road network and of the energy sector.

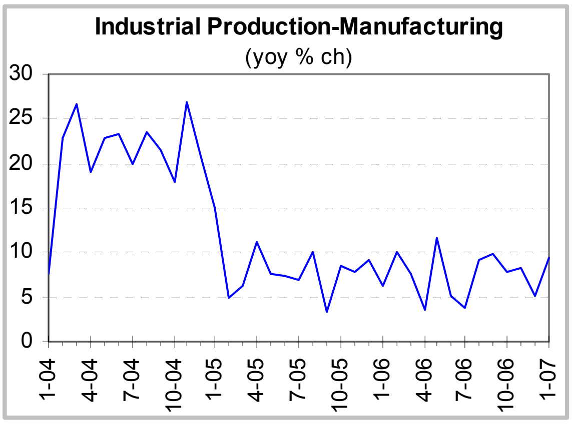
Bulgaria

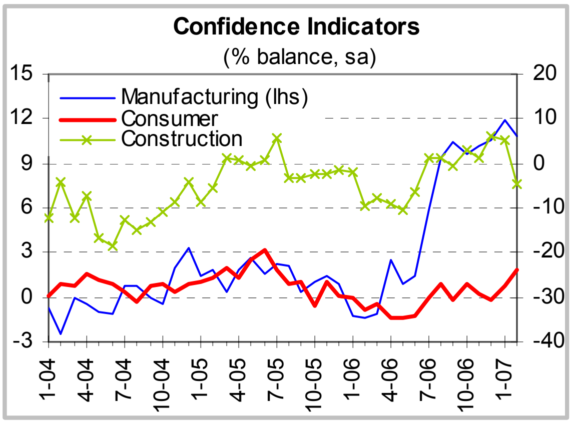


Real GDP

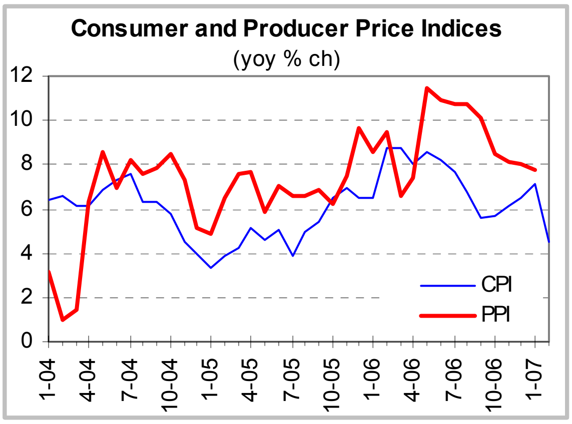


Private Consumption and Total Investment (yoy % ch)

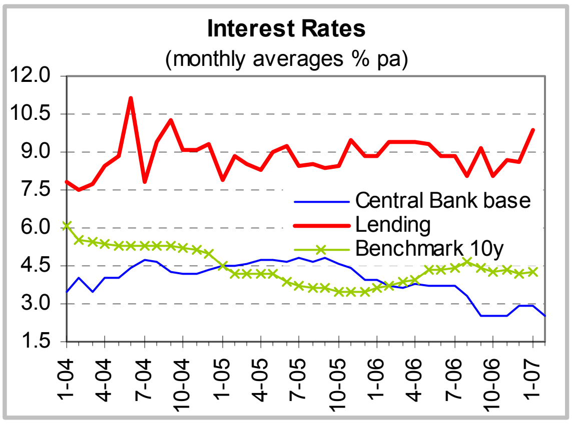

Industrial Production-Manufacturing (yoy % ch)



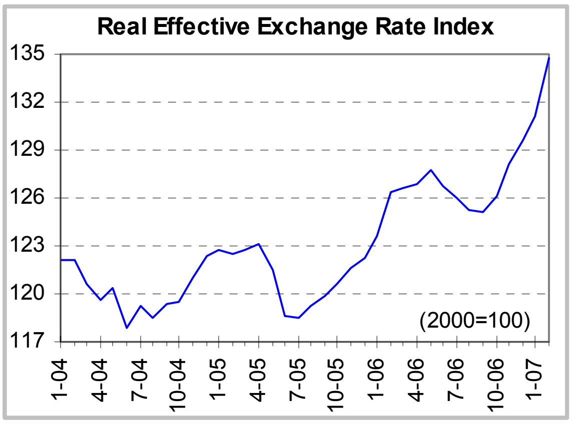
Confidence Indicators (% balance, sa)



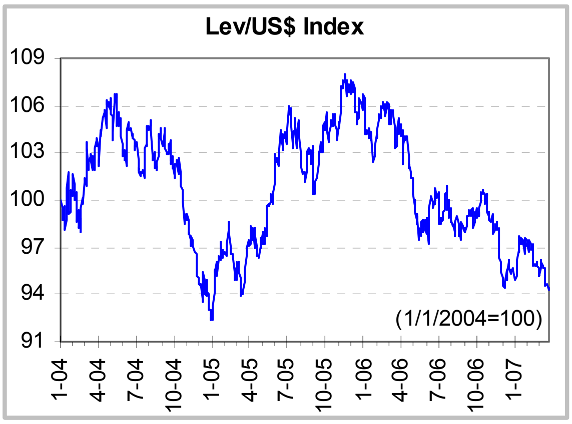
Consumer and Producer Price Indices (yoy % ch)



Interest Rates (monthly averages % pa)



Real Effective Exchange Rate Index



Lev/US$ Index

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

EGYPT

Real Indicators*	2004	2005	2006	Latest
GDP**	4.2	4.6	6.9	6.5 Oct-Dec
Consumer Prices	11.3	4.9	7.6	12.6 Feb
Wholesale Prices	17.1	5.3	6.4	16.4 Feb
Unemployment Rate (%)**	10.0	10.0		11.1 Q3
Current Account Balance (US$bn)	3.2	2.0	2.7	
as a percentage of GDP	3.9	2.1	2.5	
Real Effective Exchange Rate Index§	66.8	72.8	75.9	79.9 Jan

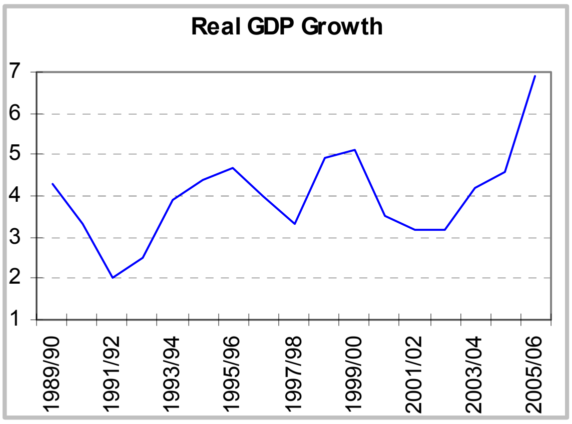
Notes:
* yoy % ch, nsa, unless otherwise indicated; ** Fiscal year ending 30th June (i.e. figures for the year 2004 cover the period 1/7/2003 to 30/6/2004); § 2000=100

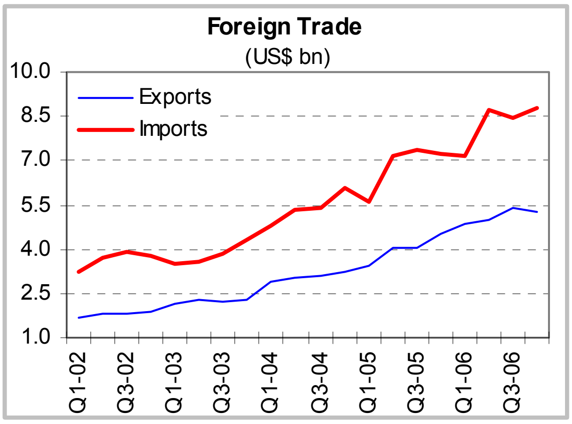
Financial Indicators				
Discount Rate (end of period)	10.0	10.0	9.0	9.0 Feb
Short Term Interest Rate pa (91 days T-Bill)	9.7	9.5	8.9	8.9 Feb
Stock Exchange (HERMES) Index (% ch)*	116.2	169.4	3.4	3.9 28/3/07**

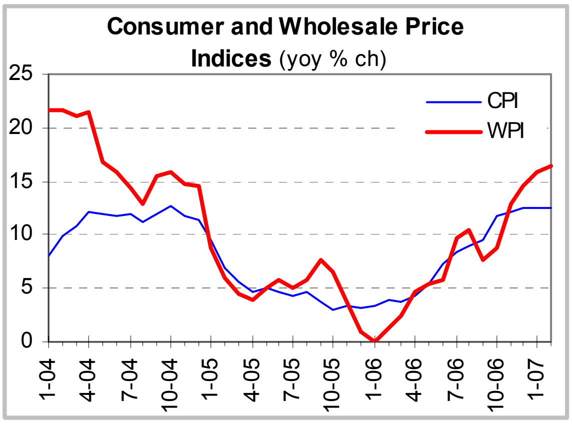
Notes:
* Average over year; CSE Index for 2004-2005, new series starting from 01/01/2006: HERMES Index; ** % change on 31/12/06
Sources: Central Bank of Egypt, Central Agency for Public Mobilization And Statistics, SESO's calculation, daily press

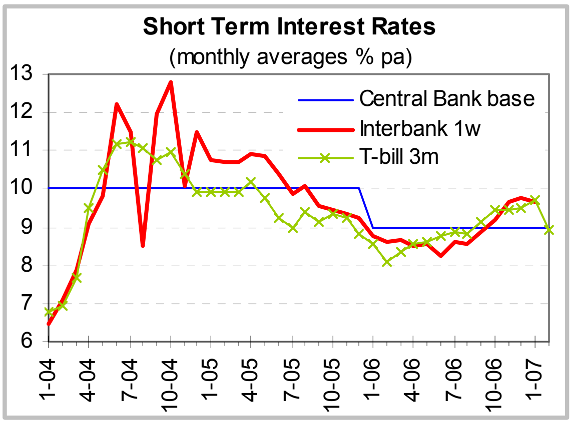
- National accounts statistics were recently revised slightly upwards in light of the inclusion of liquefied natural gas exports. These are starting to play an important role in the Egyptian economy. As a matter of fact, GDP grew by 7.1% y-o-y in Q3 06 with the gas, construction, Suez Canal and telecommunication sectors posting y-o-y growth rates of 17.6%, 15.2%, 14.2% and 12.5% respectively. Looking at the expenditure side domestic demand is driving the economy and investment continues to expand at double digit rates (+23.4% in Q3 06).
- Note that the Egyptian statistical services are committed to implement a more modern statistical data system and thus to produce regular quarterly national accounts data. However, data available so far stretch back only a couple of years and are still insufficient to allow solar year accounting and a satisfactory graphic presentation.
- A number of large-scale infrastructure projects coupled with strong residential, tourism and commercial demand is fuelling the construction boom (+14% in fy 2005/06 the figure for construction value added, which was only 5% in 2004/05). Massive capital inflows from the oil rich Gulf States and also from western European investors are financing in particular the development of tourist resorts in the Red Sea and North Coast areas. Public/private partnerships are instead especially focussed on social housing programmes and on the construction of hospitals and schools.
- Preliminary budget sector figures for 2005/2006 show a reduction in the overall budget deficit (7.9% of GDP down from 9.6% in 2004/05) in line with the government efforts towards fiscal consolidation. Tax revenues were up significantly (+29.4%) thanks to the economic buoyancy and to the successful tax reform last year (which lowered the tax rate).
- Inflation accelerated significantly in H2 06 both at the consumer and at the wholesale level. This was primarily due to the buoyancy in domestic demand, in turn partly fuelled by large cuts in income tax rates, to the 30% reduction in fuel subsidies last July, and to the surge in food prices in the wake of an Avian flu outbreak. Given the one-off nature of most of the causes and the ongoing cautious monetary policy stance, inflation pressures are set to recede over the coming months.
- Robust domestic demand coupled with the strength of the Egyptian pound have negatively impacted on the trade deficit which has widened to US$ 3.5bn by the end of 2006 (up from US$ 2.7bn a year earlier). The overall current account position remains however largely positive thanks to still healthy services receipts driven by tourism and Suez Canal. Notably foreign direct investment inflows into Egypt are rising rapidly signalling growing confidence among foreign investors.

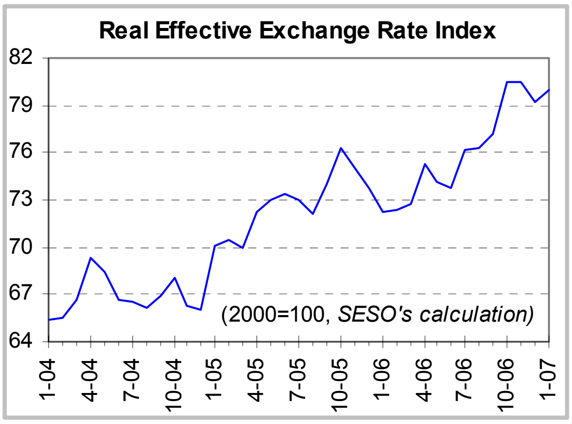
EGYPT

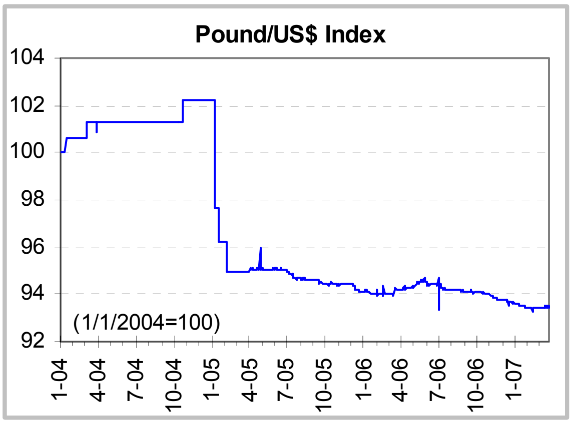












Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2004	2005	2006	Latest
GDP	5.2	2.4	8.1**	6.5 Q3
Construction Production (Gross Value Added)	3.5	5.9		6.6 Q3
Industrial Production	3.1	2.5	3.7	2.5 Q4
Consumer Prices	1.5	1.0	3.3	2.7 Feb
Producer Prices	5.0	9.1	5.9	-3.2 Feb
Urban Unemployment Rate (%)	18.4	18.4	15.5	17.2 Q4
Current Account Balance (US$bn)	1.0	1.2		2.3 Q3***
as a percentage of GDP	1.9	2.4		4.2
Real Effective Exchange Rate Index§	93.5	91.8		93.4 Nov

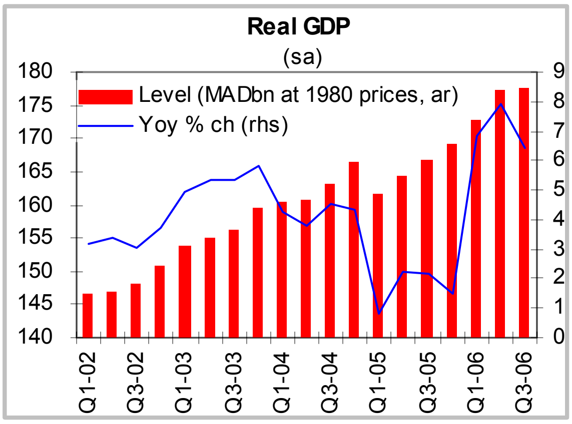
Notes:
* yoy % ch, nsa, unless otherwise indicated; ** Preliminary estimates, annual GDP data revised; *** Latest 12 months up to Q3 included; § 2000=100

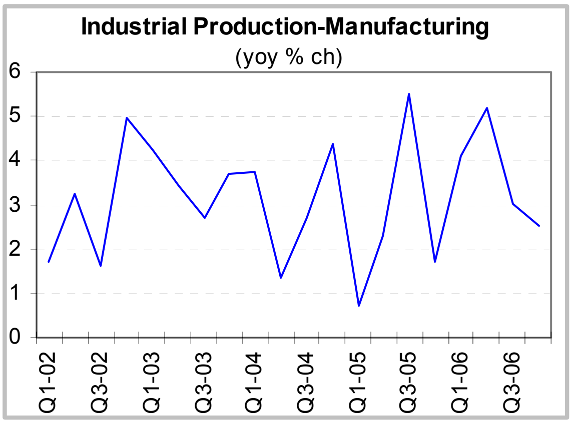
Financial Indicators				
Short Term Interest Rate pa	2.4	2.8	2.6	2.8 Feb
Stock Exchange (MASI) Index (% ch)*	25.7	10.9	57.2	21.8 28/3/07*

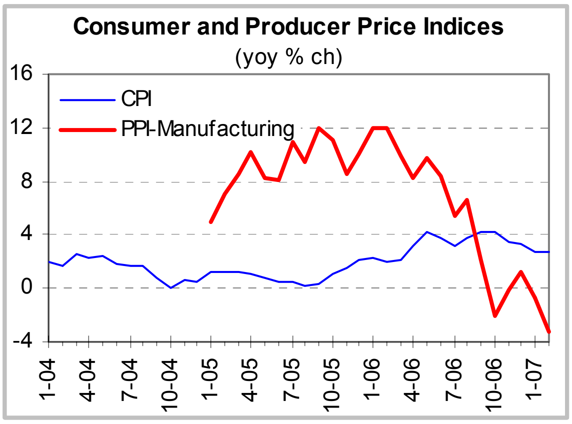
Notes:
* % change on 31/12/06
Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, IMF, daily press

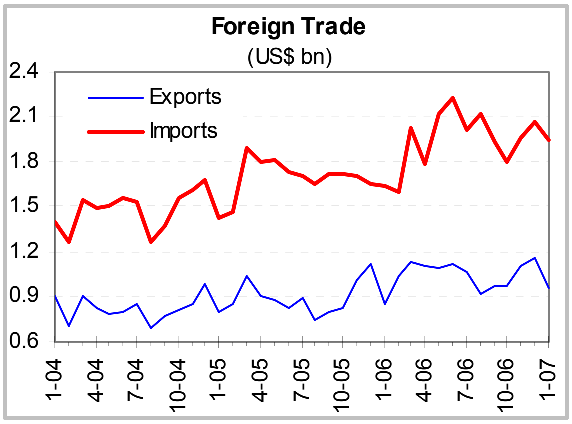
- The favourable rain, and harvest, season has resulted in a jump in agricultural output of 30% over the period January-September y-o-y. Overall, the economy recorded 6.5% y-o-y growth in Q3 with all the main sectors contributing positively to growth.
- A comprehensive revision of the national accounting system is being carried out based on international statistics codes, including the chained price methodology for calculating real quantities. As a result GDP figures have been substantially increased (+12.6% in nominal terms over the period 1998-2005) mainly because of an upward correction of export and investment figures (+56.6% and +22.3% respectively, in nominal terms and over the same period). A preliminary estimate of real GDP growth for 2006 consistent with the new series has been published and is a record high 8.1%.
- Under the impetus of government social-housing programmes, road building, port construction and tourism developments, construction and public works expanded by 6.6% y-o-y in Q3 06 (+6.8% in the first three quarters y-o-y).
- Rainfalls have been very scarce in recent months and a season of drought and severe cold is going to hit heavily agriculture. The rainfall deficit reached 94 mm on average in December 2006, with rainfall 52% down on the same period of the previous season. As a result, the majority of dams are less than 40% full and the area of cereals under cultivation is down to 3.3m ha, compared with 5.3m ha in December 2005. The government is currently working on a package of emergency aid to drought-hit farmers, who are under increasing financial strain.
- In fact, by the end of last year the government introduced a new agrarian reform aimed, among others, at the conversion of cereal cultivation to less water intensive crops (e.g. legumes, olives, fruit trees) in order to make them less weather dependent. It is obviously too early to assess the successfulness of the reform. There are indications that 30,000 ha have been converted so far.
- Inflationary pressures have been subsiding since November following the surge last year due to the acceleration in economic growth, high global oil prices, and the government's increase in domestic fuel prices.
- Very strong imports are driven by domestic demand, trade liberalisation and still high oil prices and continue to widen the trade deficit as exports do not keep the pace. This notwithstanding, the current account surplus has increased thanks to the exceptionally good tourism receipts and the growing remittances.

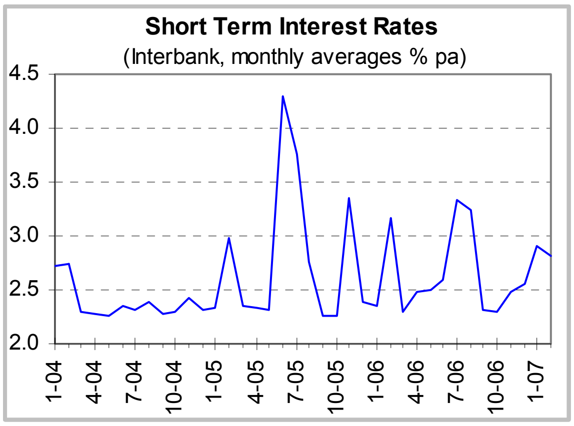
MOROCCO

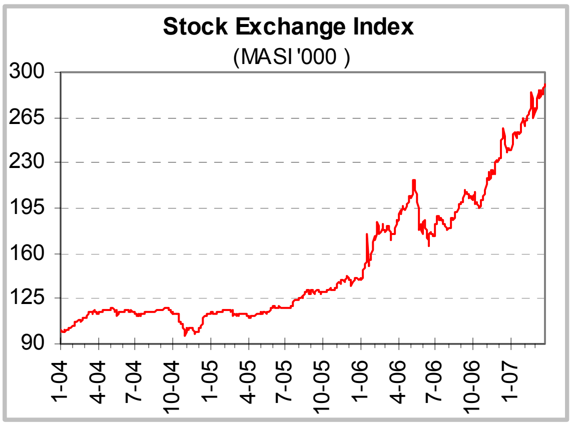


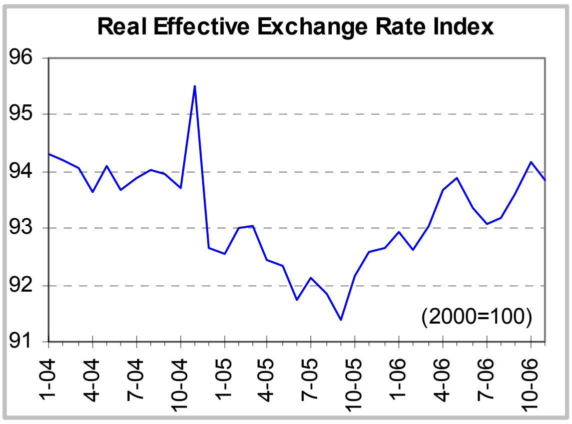


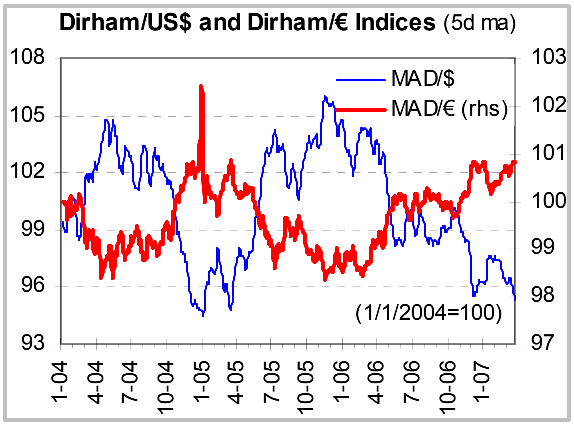












Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, Office des Change, IMF, daily press

TURKEY

Real Indicators*	2004	2005	2006	Latest
GDP	8.9	7.4		3.4 Q3
Industrial Production**	9.8	5.4	6.0	-5.2 Dec***
Construction Investment	3.7	24.5		21.2 Q3
Consumer Prices****	8.6	8.2	9.6	10.2 Feb
Producer Prices - Manufacturing****	14.6	5.9	9.3	11.2 Feb
Unemployment Rate (%)	10.3	10.2	9.9	10.5 Dec
Current Account Balance (US$bn)	-15.6	-22.7	-31.5	
as a percentage of GDP	-5.2	-5.5		-8.1 Q3°
Real Effective Exchange Rate Index§	98.0	108.1	107.3	111.1 Feb

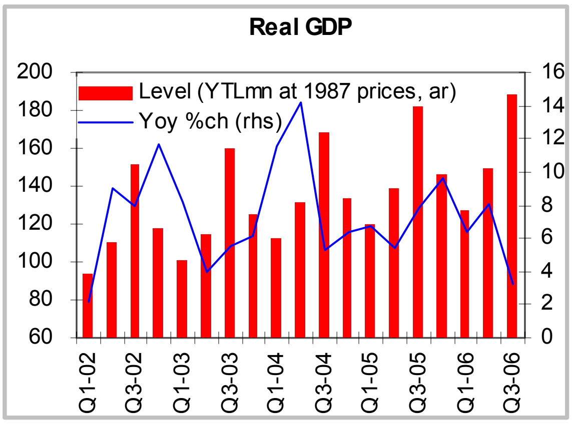
Notes:
* yoy % ch, nsa, unless otherwise indicated; ** sa; *** mom % ch - Jan nsa yoy % ch: 14.8%; **** Revised series of the National Statistics Institute;
° Latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	21.8	14.8	15.6	17.5 Feb
Stock Exchange (IMBK) Index (% ch)*	61.8	47.9	35.5	10.1 28/3/07**

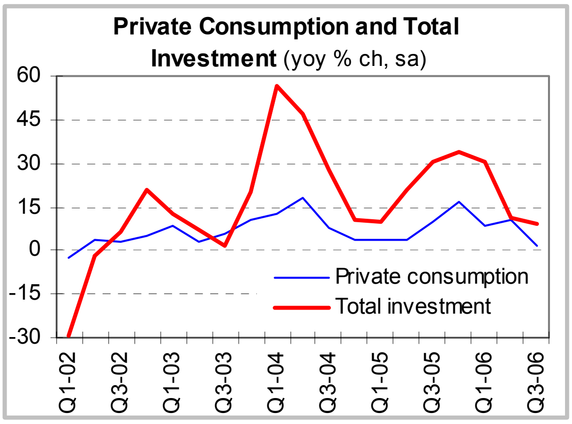
Notes:
* Average over year; ** % change on 31/12/06
Sources: OECD, BIS, Central Bank of Turkey, daily press

- National accounts data for Q4 06 will be published in early April but there are indications that the economy may have somewhat recovered from the sharp deceleration in Q3 although prospects remain cloudy. As a matter of fact, the financial turmoil in May and June last year has taken its toll on domestic demand as this slowed significantly due to falling confidence, accelerating inflation, and tightened monetary and fiscal policies. The severity of the slowdown is clearly illustrated by Q3 national accounts figure: GDP, private consumption, investment and import grew by 3.3, 1.4, 9.3 and 1.7% y-o-y respectively, down from 7.3, 9.6, 18.8 and 9.0% y-o-y respectively in H1 06.
- On the other hand exports have been recovering since last year summer on the back of the sharp devaluation of the lira. Coupled with the brake in imports this has helped improve the current account deficit which has closed the year at US$ 31.5bn, against a consensus of up to US$ 34bn, although remaining worryingly high at around 8% of GDP.
- The Central Bank of Turkey hiked the reference overnight borrowing rate by 425bp between June and July, in addition to daily intervention in the forex market and numerous actions aimed at draining excess liquidity. Nevertheless, inflation continues to hover around the 10% threshold which makes the 4% year-end target more and more unrealistic. While the main culprit remains last year lira devaluation (in fact, the inflationary backlash to the 22% devaluation has been surprisingly limited), recent tobacco tax hikes and the sharp rise in food prices, due to unseasonably dry weather, have also played a role. A monetary easing this year appears thus unlikely.
- The lira has recovered strongly since June 2006. However, the political uncertainties related to the electoral cycle (presidential elections in May and general elections in November), which may impact negatively on the fiscal position, and the large current account deficit may put the currency under strain in the coming months.
- The Cyprus issue (Ankara refuses to recognise the Greek Cypriot government and hence keeps its ports closed to Cyprus) is continuing to hamper negotiation for EU membership. Diplomatic weaving is underway to unblock the impasse.
- Early in March the IMF began discussions for the 2007 Article IV consultation with Turkey and the 6th review under Turkey's stand-by agreement. Although the IMF assessment remains broadly positive, the need has been highlighted to resume the disinflation process, maintain the Central Bank's independence, keep fiscal policy tight and implement the delayed social security reforms.

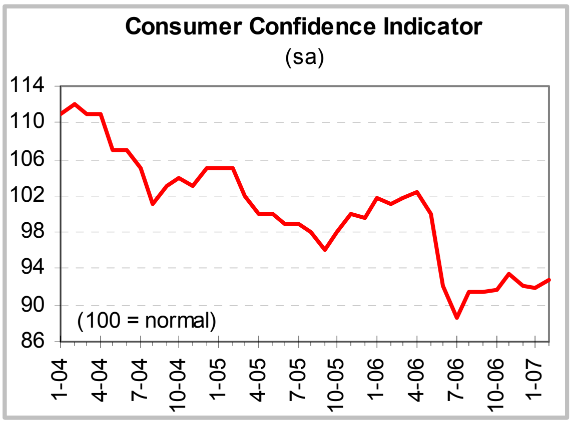
TURKEY



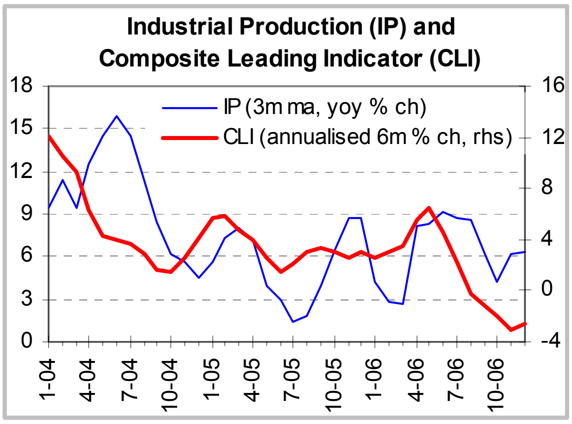
Real GDP



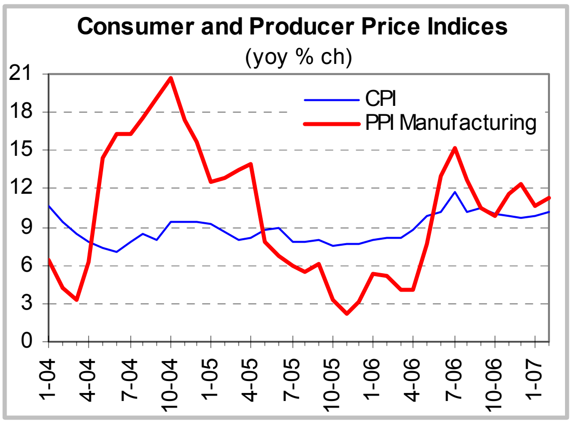
Private Consumption and Total Investment (yoy % ch, sa)



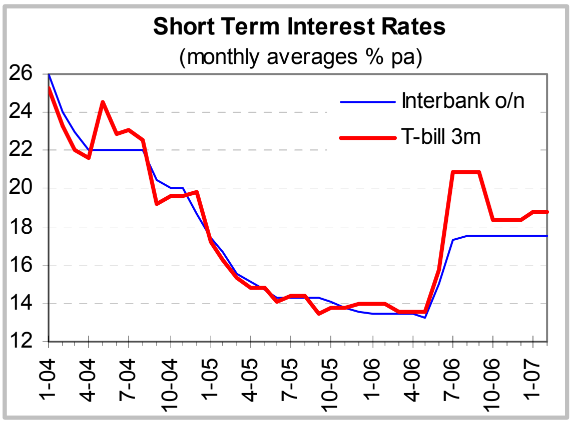
Consumer Confidence Indicator (sa)



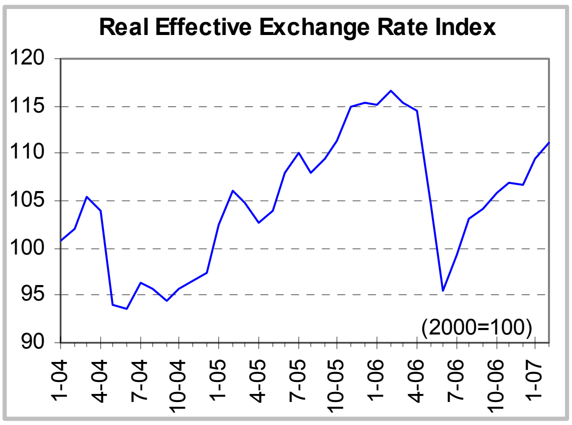
Industrial Production (IP) and Composite Leading Indicator (CLI)



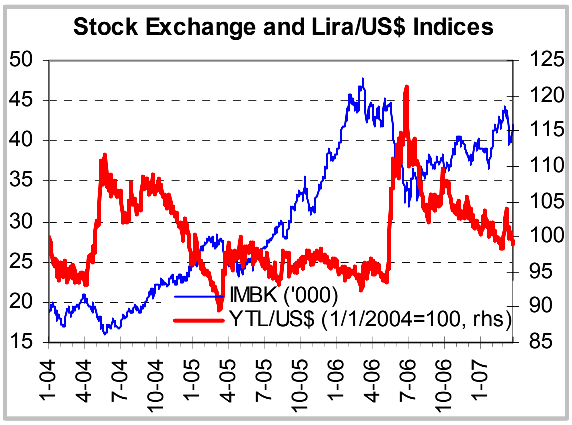
Consumer and Producer Price Indices (yoy % ch)



Short Term Interest Rates (monthly averages % pa)



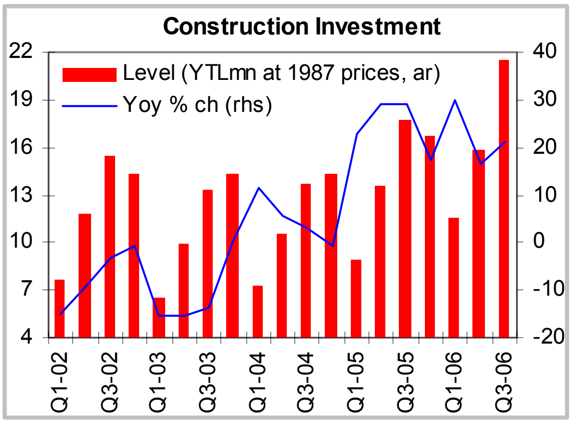
Real Effective Exchange Rate Index

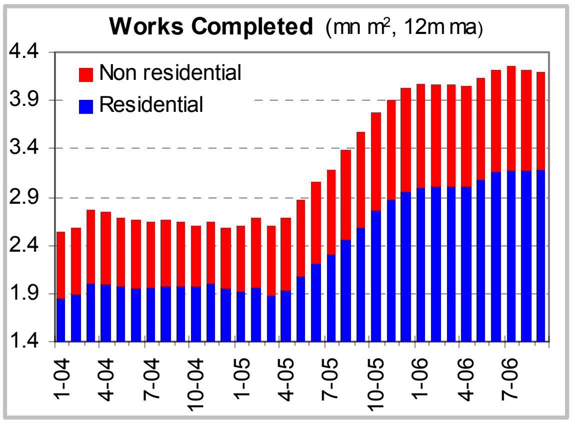


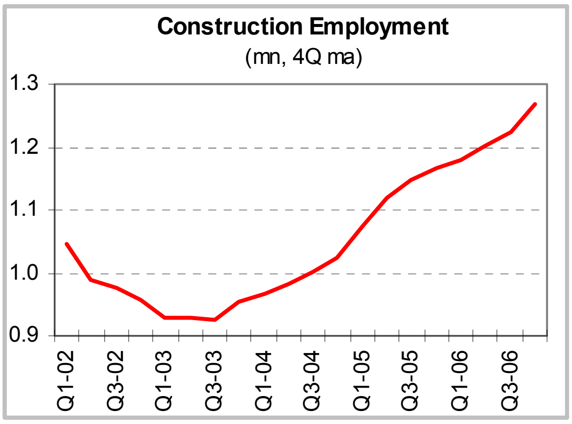
Stock Exchange and Lira/US$ Indices

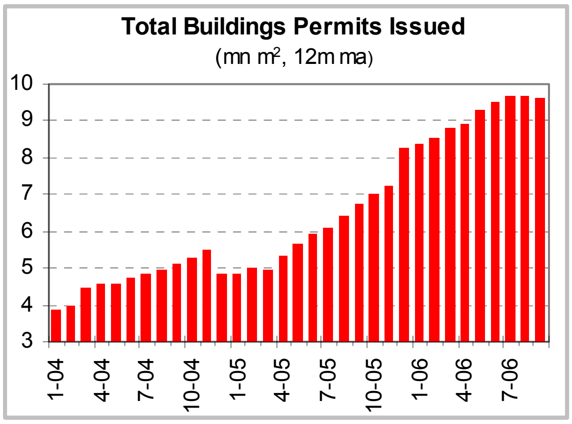
Sources: OECD, BIS, Central Bank of Turkey, daily press

Business Conditions in the Construction Sector









Sources: OECD, SIS (State Institute of Statistics)

- There are indications that construction investment has likely closed the year 2006 with a stellar performance. As a matter of fact, the latter has expanded by 21.6% y-o-y in the first three quarters of 2006 driven by the private component while public construction has also exhibited a good performance (+27.2% and +8% y-o-y in the first three quarters of 2006, respectively). Notably, while the rest of the economy was slowing sharply in Q3 06 construction investment maintained its momentum, particularly in its private component (+21.2% and +28.7% y-o-y, respectively).
- Employment in the construction sector accelerated substantially in Q4 06 (+15.7% y-o-y). On a year average employment grew by almost 9% in 2006, by far the most dynamic sector in the Turkish labour market, with a cumulative gain of 1.26mn new jobs created in the last three years (+33%).
- Preliminary data on permits and completions of buildings appear to confirm that activity remained relatively healthy in the final part of 2006. Over the whole year 2006 total building production (measured in terms of completions) grew by 5.2% (7.5% the figure for dwellings), in fact a marked deceleration relative to 2005 (when the respective figures were 62.2% and 52.3%). Permits issued decelerated sharply too (from 52.6% in 2005 to 9.6% in 2006 for total building, with similar figures for dwellings).
- The uncertainty ahead of the political elections and most importantly the restrictive monetary policy stance are at the roots of this gloomier outlook for the coming months. All in all, it is very likely that the current year has started on a much softer note and will hardly replicate last year robustness.

THAILAND

Real Indicators*	2004	2005	2006	Latest
GDP	6.3	4.5	5.0	4.2 Q4
Industrial Production - Manufacturing	11.7	9.0	7.4	0.2 Jan
Construction Investment	9.3	6.2	5.5	4.8 Q4
Consumer Prices***	2.8	4.5	4.6	2.3 Feb
Producer Prices***	6.7	9.1	7.1	2.9 Feb
Unemployment Rate (%)***	2.1	1.9	1.5	1.6 Jan
Current Account Balance (US$bn)	2.8	-7.8	3.2	
as a percentage of GDP	1.7	-4.4	1.5	
Real Effective Exchange Rate Index§	95.6	97.2	105.6	115.6 Feb

Notes:
* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; § 2000=100

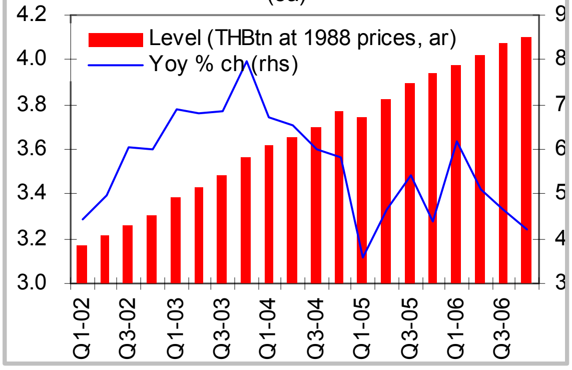
Financial Indicators				
Short Term Interest Rate pa (o/n)	1.2	2.6	4.6	4.7 Feb
Stock Exchange Index (Bangkok) (% change)*	37.5	4.1	4.2	-1.6 28/3/07**

Notes:
* Average over year; ** % change on 31/12/06
Sources: Bank of Thailand, National Economic and Social Development Board, BIS, daily press

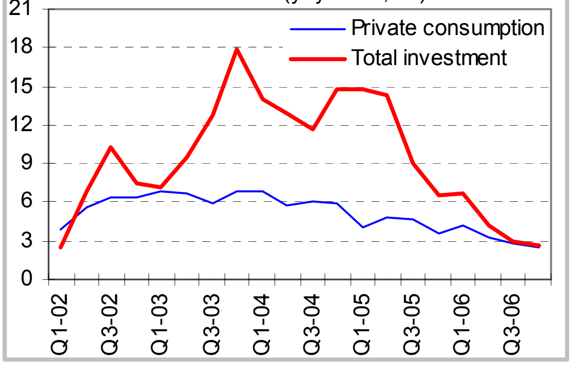
- GDP growth slowed sensibly in Q4 06, recording its lowest quarterly growth rate (+0.7%) since Q3 2001 (talking out the Q1 05 post-tsunami contraction). This was largely expected given last September coup and the ensuing period of uncertainty. The carry-over effect to 2007 is nevertheless the same as last year, that is, just over 1%. Private consumption weakened substantially over the year (+0.1% q-o-q in Q4 down from +1.1% q-o-q in Q2), as flooding and high oil prices hit consumer confidence.
- The strongest driver was net export which contributed a stunning 4% in Q4 and 4.8% over the whole year thanks to an extremely dynamic export performance (+6.8% in Q4 y-o-y and +8.5% in 2006). Shipments were bolstered by strong demand for commodities, electronic goods and autos driven by the recovery in Japan and continued deepening of intra-regional trade, anchored on China. Prospects for the current year are partially clouded as growth softens in US and to some extent also in China. A recent sharp appreciation in the *baht*, strongly correlated with the yen, was fuelled by yen carry-forward trade, which will further undermine export competitiveness.
- The good export performance is being mirrored in a brilliant industrial production performance. Gradually easing monetary conditions coupled with lower domestic oil prices (given the ever appreciating *baht*) are resulting in improving leading economic indicators.
- Albeit remaining weak on a y-o-y basis, private investment surprisingly rose by +3.3% q-o-q in Q3 06 following a two-quarter contraction, driven by public construction and investment in machinery and equipment. As the Bank of Thailand has inaugurated a more accommodative stance in January (given the weakening economy and the subsiding inflation trend) investment should somewhat recover, as will also private consumption. Nevertheless, local and foreign companies are likely to refrain from pushing ahead with major investment plans until a degree of medium-term political stability has been re-established.
- As a matter of fact, the overall climate in Thailand remains shaky following last September coup - the next election round should be held only late this year. The past few months have witnessed a thoroughly unconvincing policy making by the interim military government with a series of major ill-thought measures (primarily, new currency and capital controls, a revision of foreign business ownership regulations, the sharp increase in defence spending included in the 2007 budget). All this has resulted in an increasingly uncertain economic environment and in growing disillusionment among Thais, which is to be added to the serious problems posed by the political unrest in the South and by last fall floods.

THAILAND

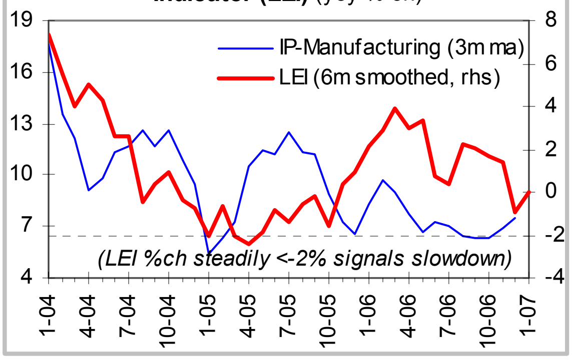
Real GDP
(sa)



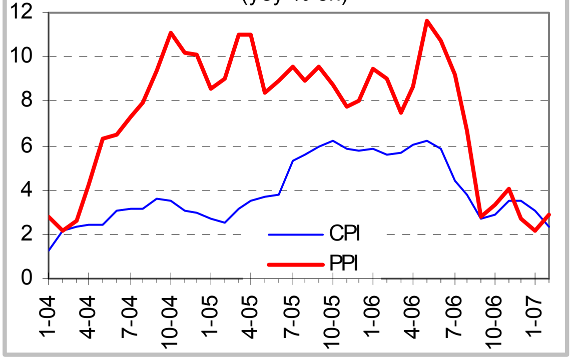
Private Consumption and Total Investment (yoy % ch, sa)



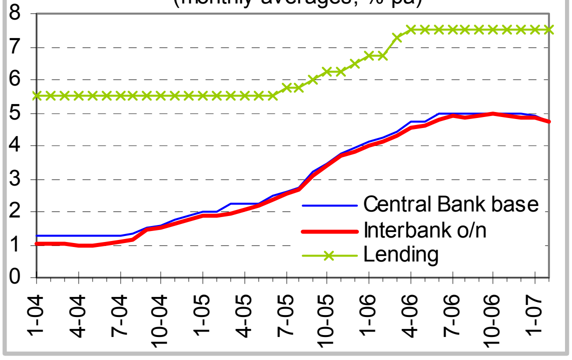
Industrial Production (IP) and Leading Economic Indicator (LEI) (yoy % ch)



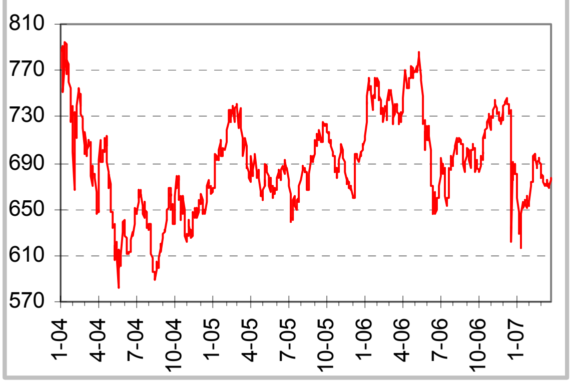
Consumer and Producer Price Indices
(yoy % ch)



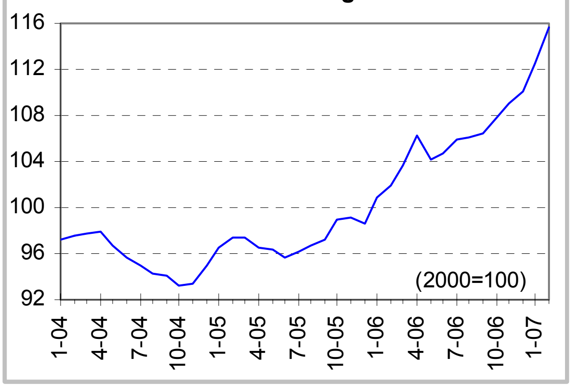
Short Term Interest Rates
(monthly averages, % pa)



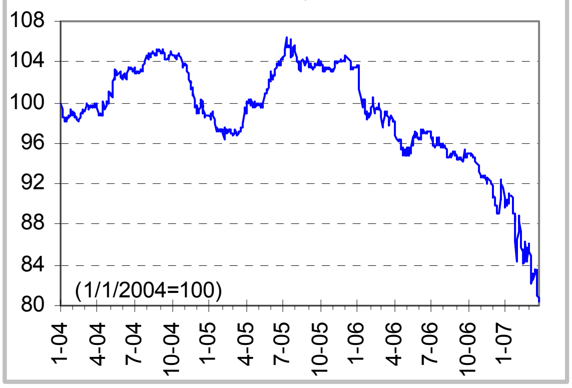
Stock Market Index (Bangkok)



Real Effective Exchange Rate Index

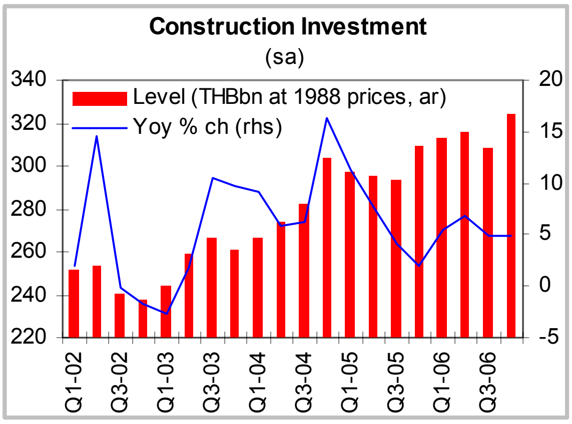


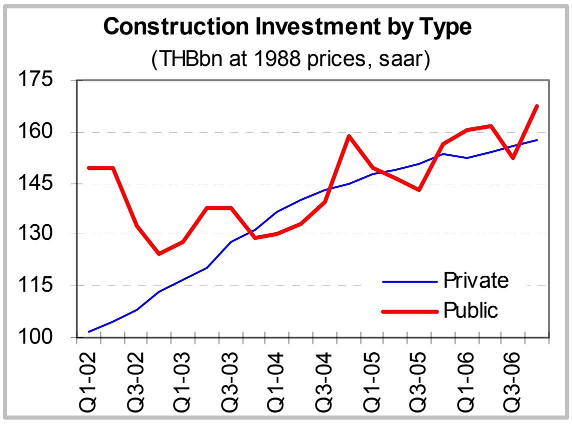
Baht/US$ Index

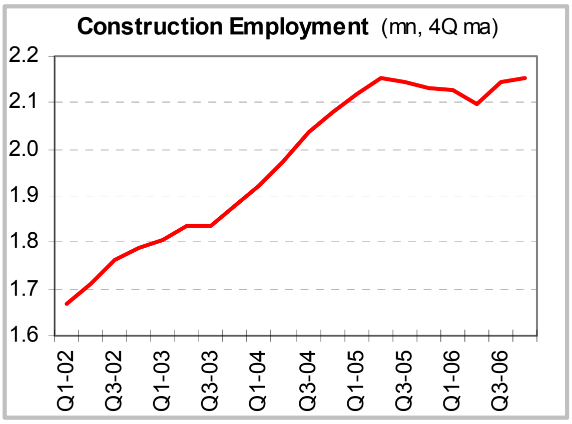


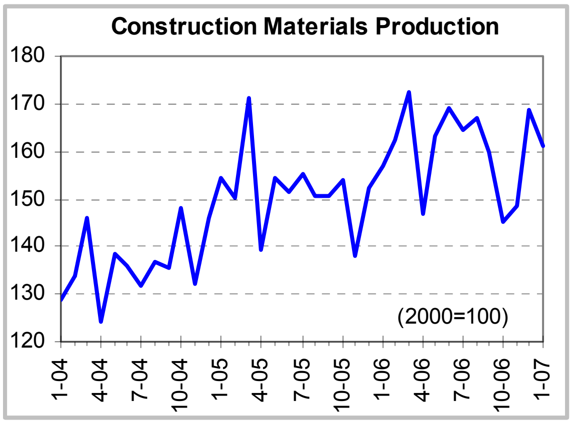
Sources: NESDB, Bank of Thailand, daily press, BIS

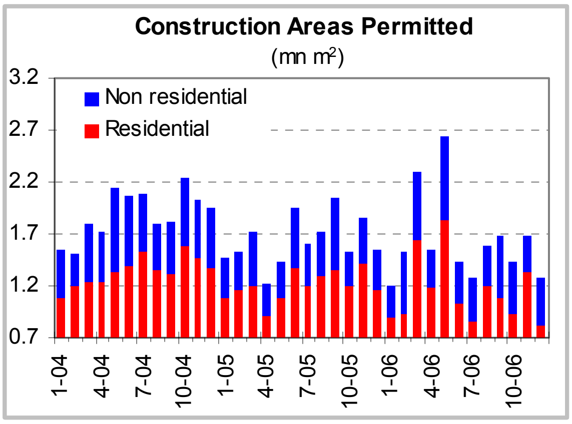
Business Conditions in the Construction Sector

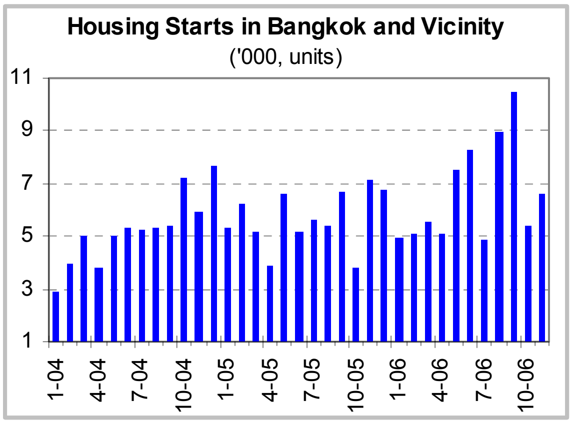












Source: Bank of Thailand

- In Q4 06 construction activity recovered momentum (+5.2% q-o-q following -2.3% and 0.7% in the previous two quarters). Overall, construction grew by 5.5% in 2006 bringing a carry-over of 2.9% into 2007.
- Although national accounts data are boding well, there is a lot of anecdotal information which suggests that the situation in the private sector is rather mixed. On the one hand, recent controversial new legislative and regulatory steps by the government (e.g. the new foreign currency rules) have raised the level of uncertainty and hit confidence. On the other hand, an expected fall in interest rates and more affordable oil prices could also benefit the overall economy and the private sector as well.
- Public works look in good shape. The post-coup government in November endorsed five new rail lines in Bangkok worth US$ 4.5bn, with construction of three of them set to begin in 2007.

INDIA

Real Indicators*	**2004**	**2005**	**2006**	**Latest**
GDP**	7.1	8.6	9.0	8.6 Q4
Industrial Production - Manufacturing	8.9	9.0	11.4	11.6 Jan
Construction Production (Gross Value Added)	11.4	13.5	10.3	9.9 Q4
Consumer Prices	3.6	4.3	6.2	6.7 Jan
Wholesale Prices	6.6	4.7	4.8	6.2 Feb
Current Account Balance (US$bn)**	0.8	-8.3		-13.7 Q3°
as a percentage of GDP	0.1	-1.1		-1.6
Real Effective Exchange Rate Index§	99.8	103.7	102.1	104.3 Feb

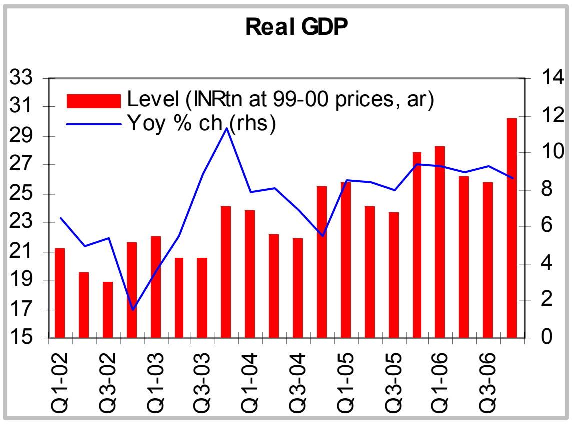
Notes:
* yoy % ch, nsa, unless otherwise indicated; national account data are shown on a solar year basis after transforming the original fiscal year data; ** nsa; ° Latest 12 months up to Q3 included; § 2000=100

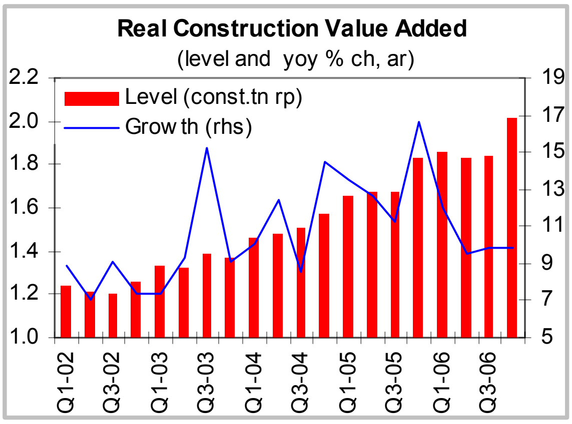
Financial Indicators				
Short Term Interest Rate pa (91-day T-bills)	4.7	5.4	6.4	7.7 Feb
Prime Lending Rate	10.6	10.5	10.9	11.9 Feb
Stock Exchange Index (Mumbai) (% ch)*	44.2	32.7	54.7	-6.5 28/3/07**

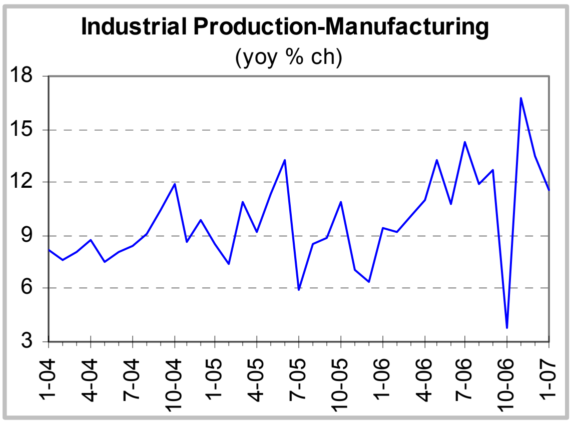
Notes:
* Average over year; ** % change on 31/12/06
Sources: Reserve Bank of India, BIS, Office of Economic Advisor, Labour Bureau, Statistics India, daily press

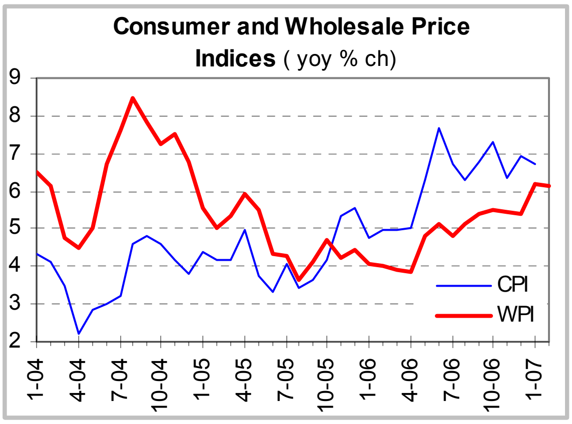
- The economy has been booming in recent quarters. Real GDP expanded by 8.6% y-o-y in Q4 06, after having grown by 9.2% in Q3 06. Economic growth was powered by the manufacturing and service sectors and by strong consumer spending. Within the service sector, trade, hotels, and transport grew by 13%. Construction increased by 9.9% and finance and property expanded by 11.6%. Meanwhile, the agricultural sector posted only 1.5% y-o-y growth.
- The brisk pace of economic expansion is fuelling inflationary pressures. Consumer price index stood at 6.7% y-o-y in January 2007, up from the 6.5% figure seen in December 2006, reflecting slightly higher prices for energy and agricultural goods. Wholesale price inflation climbed to 6.7% in February and prices of politically sensitive food items have continued to rise.
- With such worries over inflation, the budget proposals for the fiscal year 2007-08 also include some anti-inflationary measures such as reductions in import tariffs for several products. However, the budget is not counter-cyclical as these measures will be outweighed by higher public spending.
- Booming imports are pushing the trade balance into a wider deficit which in turn translates into a larger current account deficit. The latter is however easily financed by large capital inflows. Notably, according to the Reserve Bank of India (RBI), during April-August 2006 foreign direct investment was 62% higher than in the corresponding period of previous year.
- With exports and inflows from non-resident Indians still steady, foreign-exchange reserves have remained buoyant, bolstering the rupee which appreciated significantly vis-à-vis the US dollar (about 7.5%) since July 2006. The RBI has not intervened to counter the currency appreciation as it aims at curbing inflationary pressures.
- The healthy performance of the whole economy, along with the government's new social housing programs is boosting residential activity. In this respect, however, early signs of overheating are mounting in some of the major cities where housing prices have been skyrocketing lately. The private non residential component has been supported by tax relieves aimed at boosting FDI. In addition, the government, in its mid-term appraisal of the tenth five-year plan (2002-07), has revised upwards its infrastructure investment target to around US$ 252bn over the next five years.

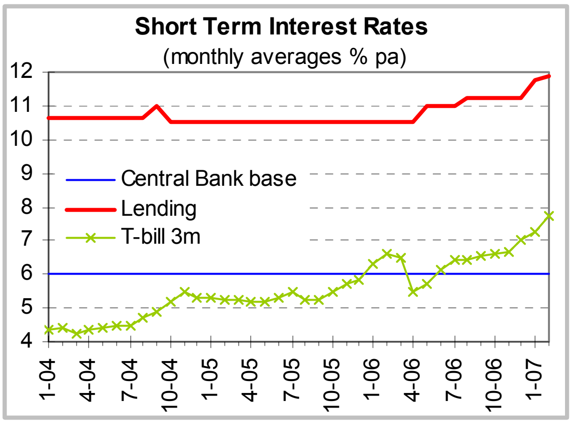
INDIA

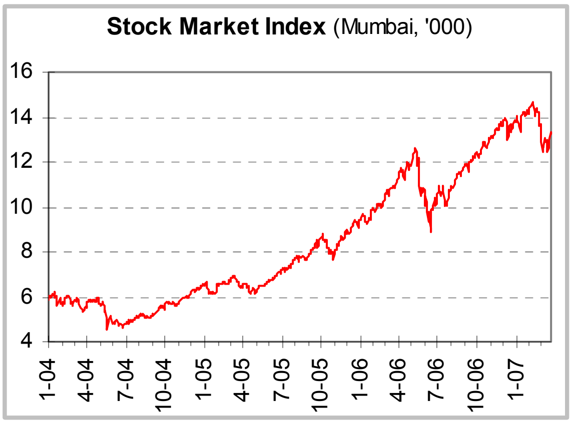


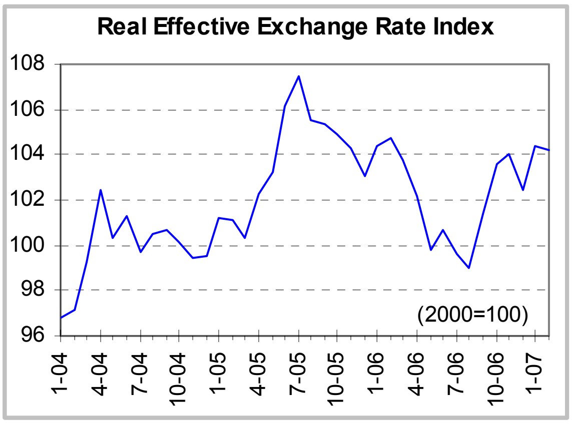


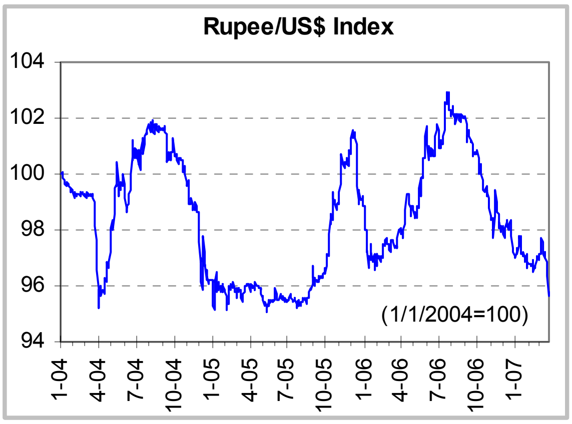












Sources: Reserve Bank of India, Office of Economic Advisor, Labour Bureau, Statistics India, BIS, daily press

KAZAKHSTAN

Real Indicators*	2004	2005	2006	Latest
GDP	9.6	9.5	10.6	
Industrial Production	17.8	5.3	6.3	8.9 Jan
Consumer Prices	6.9	7.6	8.7	7.9 Feb
Producer Prices	16.8	23.7	18.5	1.6 Feb
Unemployment Rate (%)	8.4	8.1	7.8	7.3 Q3
Current Account Balance (US$bn)	0.3	-0.7		-0.7 Q3**
as a percentage of GDP	0.8	-1.3		-1.0
Real Effective Exchange Rate Index§	93.1	96.4	104.1	104.3 Jan

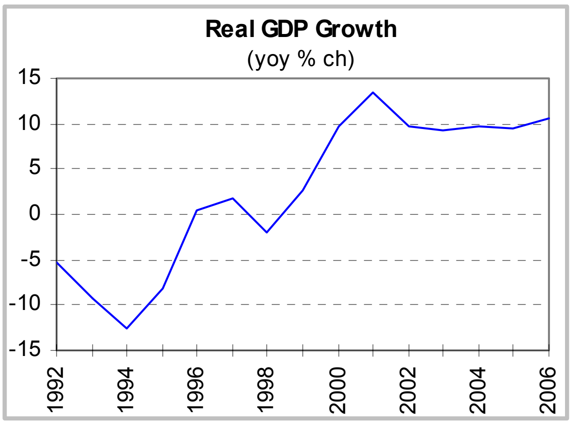
Notes:
* yoy % ch, nsa, unless otherwise indicated; ** Latest 12 months up to Q3 included; § 2000=100

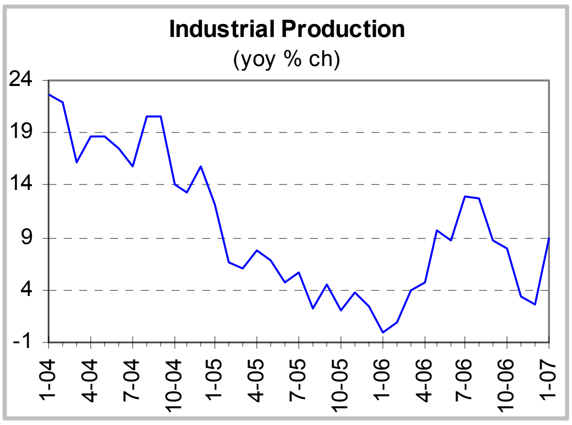
Financial Indicators				
Refinancing Rate (end of period)	7.0	8.0	9.0	9.0 Feb
Short Term Interest Rate pa (<1 year)	4.8	2.8	3.5	4.8 Feb
Exchange Rate Tenge/$	135.8	132.8	125.9	124.7 Feb

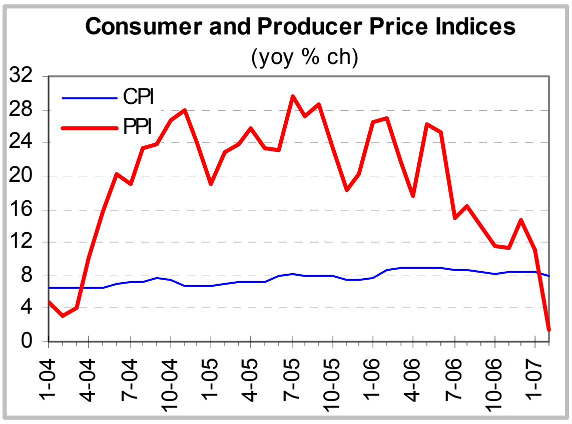
Sources: National Bank of Kazakhstan, EIU, IMF, Interstate Statistical Committee of the CIS

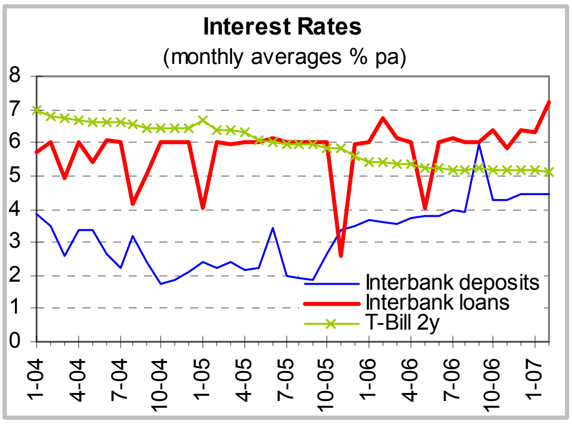
- The Kazakh State Statistics Agency has reported annual 2006 GDP growth at a very impressive 10.6% rate. Expansion was led by the industrial sector. Recent data show that also 2007 activity has started on a strong note (January output rose by 9.0%).
- Non-oil sector growth has accelerated. As a matter of fact, supply of transport services increased by 7.0% during the year. Real estate related services increased by nearly 10.0% and domestic trade rose by 9.8%. In addition, financial activity skyrocketed (+43.4%).
- Money growth remains very high driven by continued accumulation of FX, though there are signs that the Kazakh National Bank (NBK) has intensified its sterilization effort: NBK's note issuance has increased sharply, average yields are up and NBK has raised its deposit rates.
- In the first half of 2006, inflation pressures increased, as the headline rate rose from 7.5% at the end of 2005 to 9.0% in May 2006. Since then, annual inflation has been slowly receding, despite remaining elevated. In addition, producer price inflation (PPI) in January registered a modest rate of 0.1% m-o-m, followed in February by a fall of 5.0% m-o-m. In particular, prices and tariffs in the oil sector fell by 7.4% m-o-m from January and gas prices decreased by 7.3% m-o-m.
- Almost all foreign debt is now privately owned. With the current account close to balance, it is the debt-driven capital account surplus that supports the KZT appreciation trend.
- The construction sector surged by 35.6% in 2006. This was the result of pipeline construction and wide-ranging building works in the new capital, Astana. Starting last year, the country has been implementing a three-year-long state programme on housing construction. During this period, at least 12mn m^2 of housing space is expected to be built.

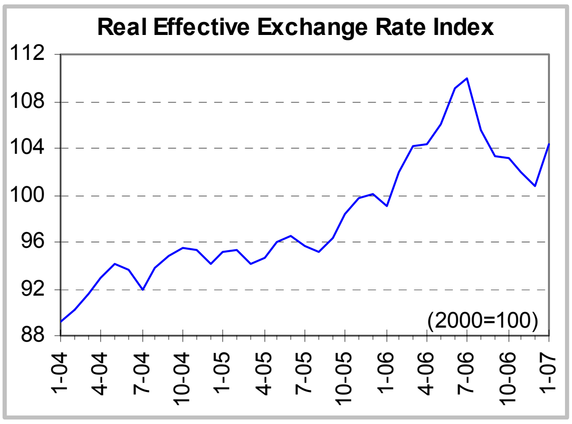
KAZAKHSTAN

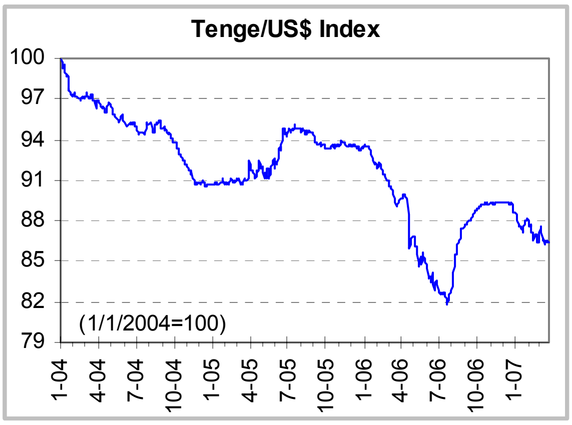












Source: National Bank of Kazakhstan