

## Economic Profile in ITC Group Countries

**N. 1 March, 30<sup>th</sup> 2012**

### **Global Economic Conditions:**

Real Indicators

Financial Indicators

### **Countries:**

United States

Canada

France

Belgium

Italy

Spain

Greece

Bulgaria

Egypt

Morocco

Thailand

India

China

Kazakhstan

## Key to Abbreviations

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

Based on information up to March, 30<sup>th</sup> 2012

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## Highlights

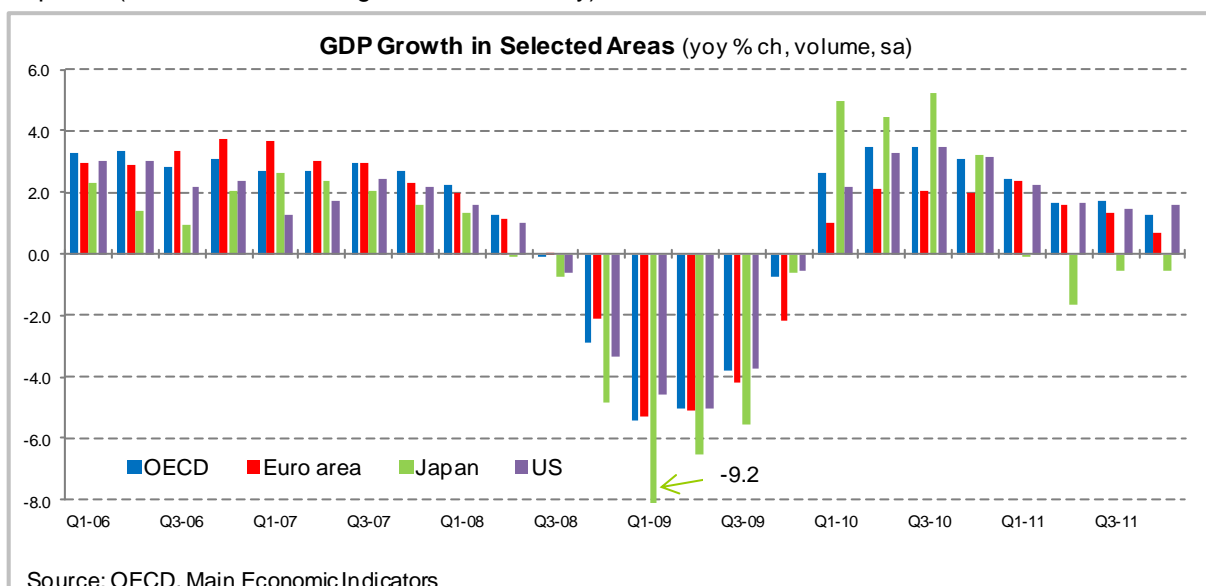
- World economic conditions have deteriorated sensibly in Q4 11 and, to a more limited extent, also in Q1 12.
- In addition, business cycles have kept diverging both within the advanced economies – between North America and Europe, but also among countries belonging to the euro area – and the emerging area, where signs of slowing down have emerged in a number of major countries, to start with Brazil and China.
- Given weakening global demand, inflation has receded somewhat, but significant upward risks remain mainly as an effect of resurfacing tensions on oil price, which has hovered recently around 120\$/b. Given the euro depreciation vis-à-vis the dollar this implies record levels for euro area importers.
- On the positive side the US recovery has shown clear signs of strengthening, particularly as far as new jobs creation is concerned.
- The euro area turmoil – the major source of instability in recent months – has been put under stricter control. However, it can be by no means considered as settled down once and for ever as signalled by the new widening in sovereign spreads.
- It is also worth mentioning that despite an extraordinary non conventional activism by the ECB to supply ample and cheap liquidity, credit conditions have remained so far fairly tight in most euro economies. There is, nevertheless, room for improvement in the next few months.
- There is widespread sentiment that the ongoing global slowdown could turn out only temporary and leave the ground open for a definitely better H2 12. Leading indicators in most countries confirm this relatively optimistic view.
- Against this backdrop, a number of uncertainty factors remain that could severely impact timing, width and strength of the expected rebound, namely:
  - the US recovery may turn out to be fragile and not self-sustained and a change of the policy mix towards tightening may be needed after next November elections;
  - currency markets are far from stabilised and volatility seems set to remain high for an extended period involving also emerging currencies;
  - China may enter a more challenging phase should the ongoing mild softening turning into a full-fledged recession;
  - the oil market could tighten further should tensions with Iran dramatically escalate.

## GLOBAL ECONOMIC CONDITIONS: Real Indicators

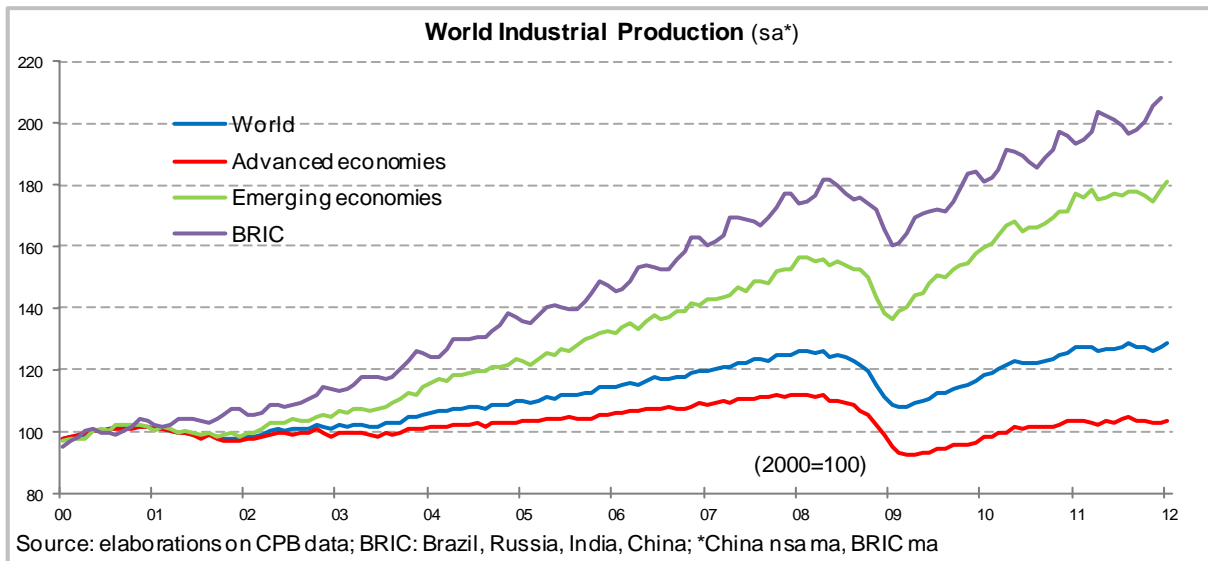
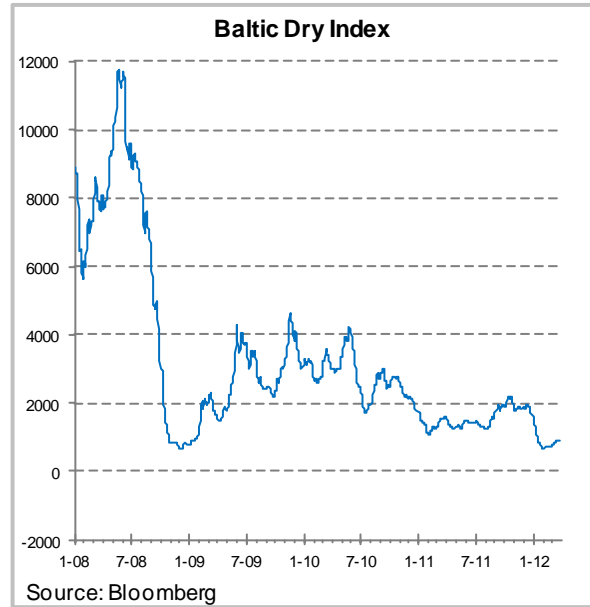
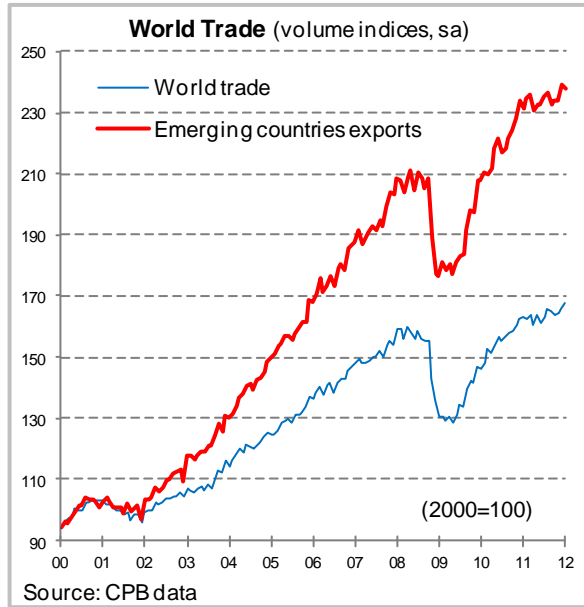
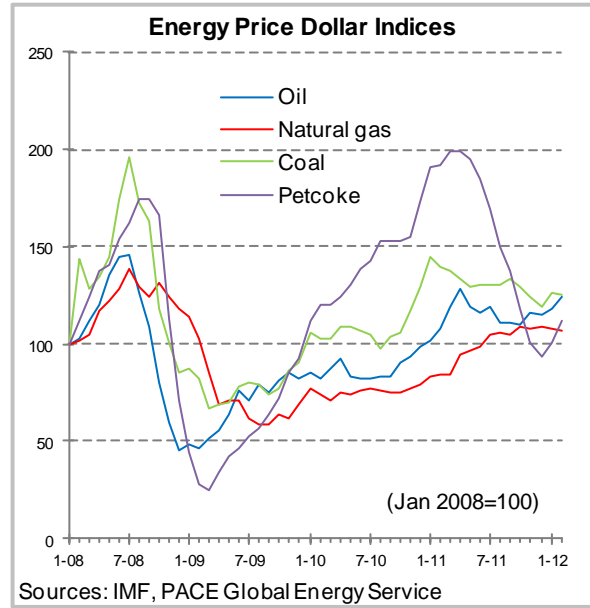
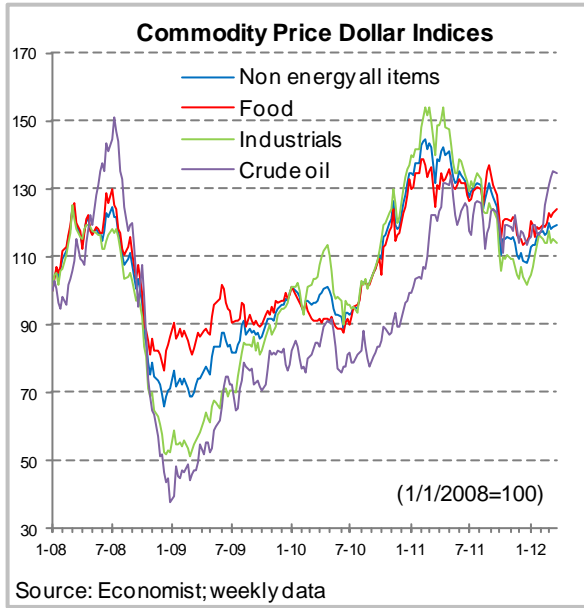
yoy % ch (unless otherwise indicated)	2009	2010	2011	Latest
GDP: OECD	-3.8	3.1	1.8	1.3 Q4
Euro Area	-4.2	1.8	1.5	0.7 Q4
US	-3.5	3.0	1.7	1.6 Q4
Japan	-5.5	4.4	-0.9	-0.6 Q4
Inflation: US	-0.4	1.6	3.2	2.9 Feb
Euro Area	0.3	1.6	2.7	2.6 Mar
Oil Price Level (Brent, \$/barrel)	61.9	79.6	111.0	119.4 Feb
(yoy % ch)	-36.7	28.7	39.4	15.2

Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, US Energy Information Administration

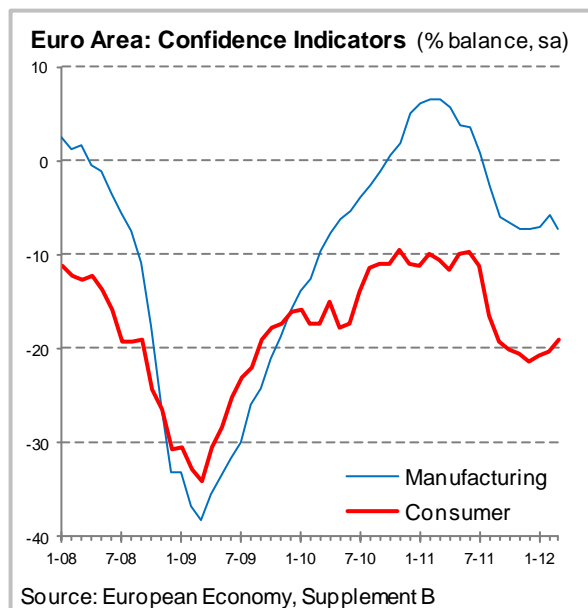
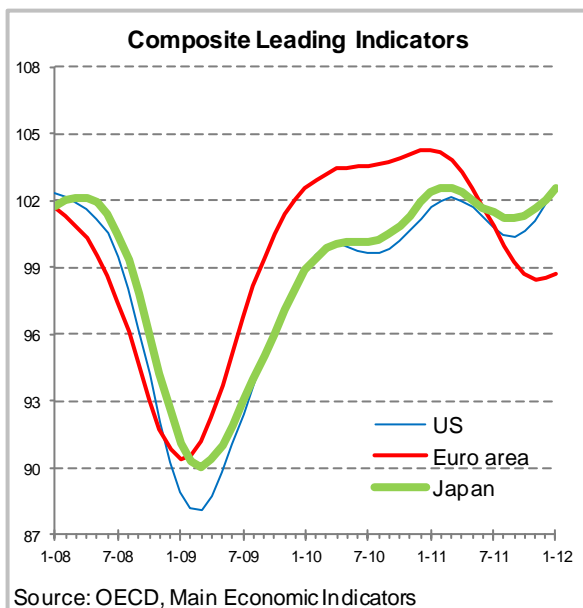
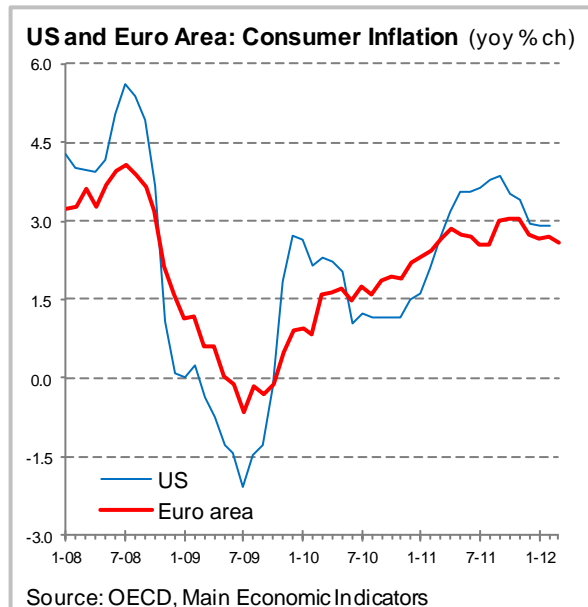
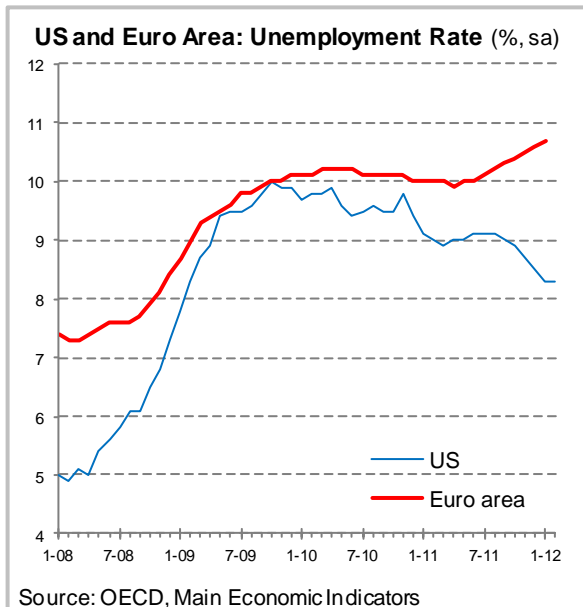
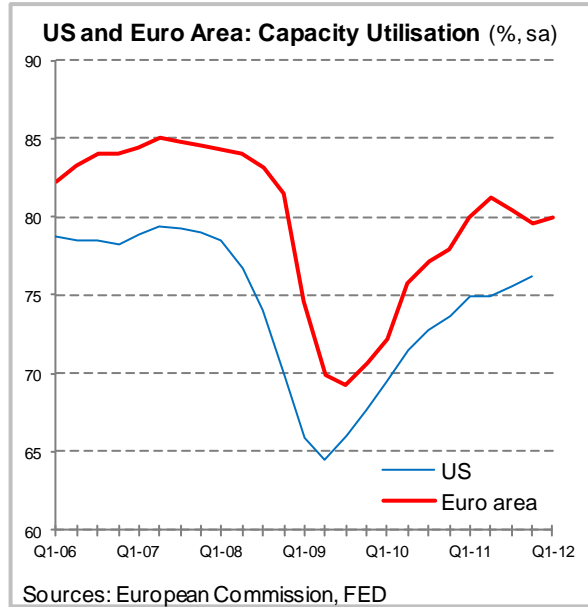
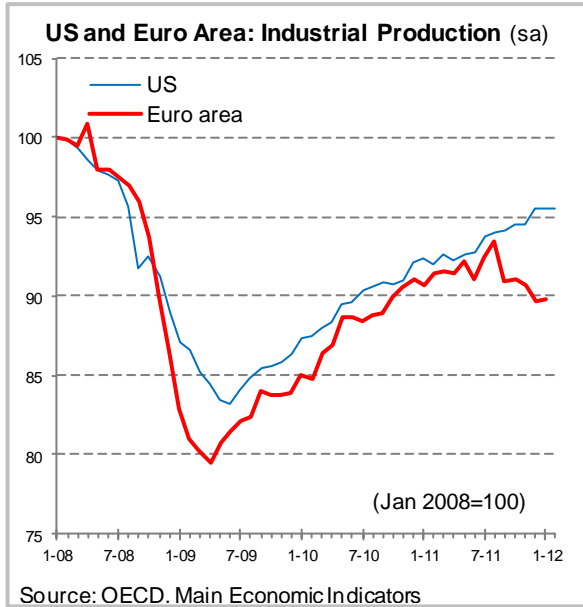
- The world economy has lost momentum in the final part of 2011 with many advanced economies re-entering recession. While overall prospects should improve in the coming months, various headwinds are looming: the recent upsurge in oil prices, banking sector deleveraging in the euro area, painful fiscal consolidation in many euro area countries, and a demand slowdown in several emerging markets.
- One of the main characteristics of the current juncture is the deepening decoupling of growth among and within the main global areas. As for the advanced economies, the US and Canada are enjoying far stronger expansion than the ailing euro area (which is in fact struggling with recession), while Japan is set to rebound strongly. Within the euro area performances, and prospects, differ between the “virtuous” Northern members and the “profligate” Southern ones including Ireland (the so called PIIGS). As for the emerging area, while some countries keep expanding robustly, there are increasing signals of a weakness in big economies such as China and Brazil, while India appears to be bottoming out from last year slowdown.
- While one source of global risk has partially receded, i.e. financial strains in the euro area and the threat of a break-up of the euro (the “apocalyptic” mood of late 2011 has been replaced by a more cautious atmosphere in which the crisis has overcome its acutest phase), another one is resurfacing. Oil prices are spiking due to the loss of supply from South Sudan, Syria and Yemen, as well as supply concerns related to tensions between Iran and the West.
- Inflation has moderated globally albeit not receding to more consumer-friendly levels. There is, however, increasing upward risk stemming not only from energy prices but also from commodity prices (which are recovering, albeit moderately).



## REAL INDICATORS



## REAL INDICATORS





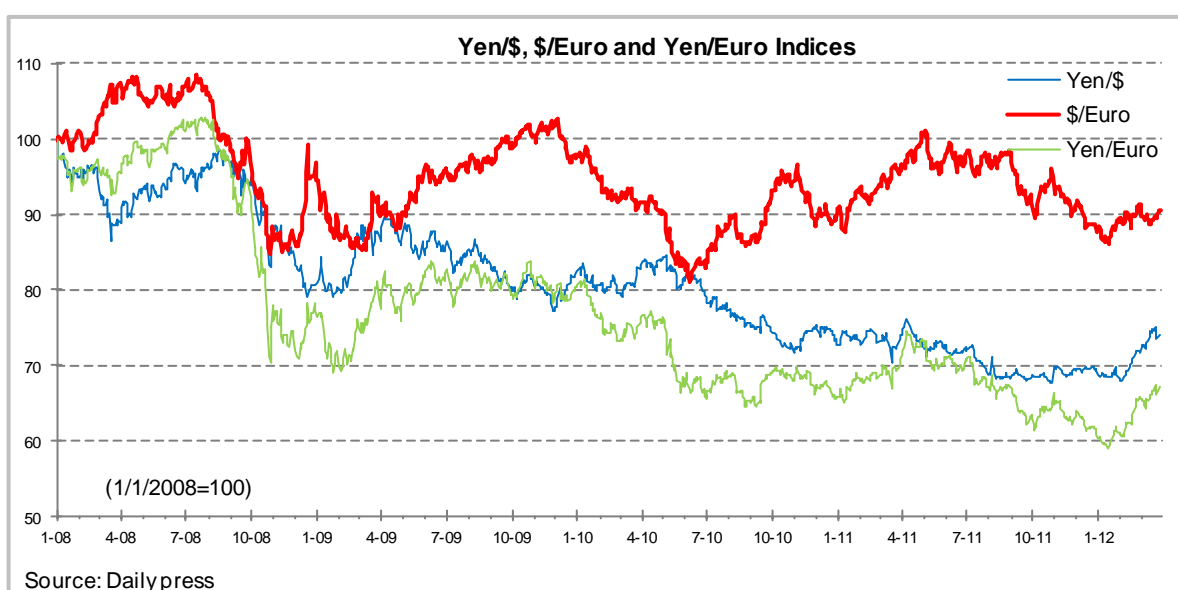
## GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2009	2010	2011	Latest
Dollar/Euro Exchange Rate	1.394	1.326	1.392	1.310 *
Policy Rates (end of period):				
- US (target for federal funds)	0.0/0.25	0.0/0.25	0.0/0.25	0.0/0.25 16/12/08
- Euro Area (repo rate)	1.00	1.00	1.00	1.00 14/12/11
Long Term Interest Rate (10y government bonds, year average):				
- US	3.26	3.22	2.78	1.97 Feb
- Euro Area	4.03	3.79	4.31	3.75 Feb

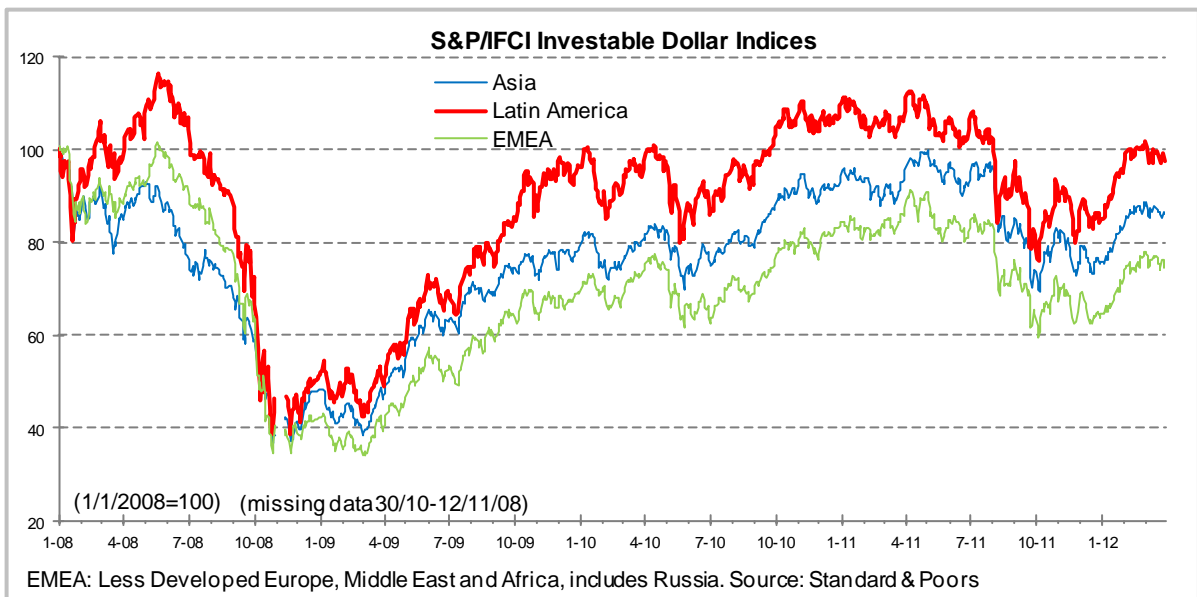
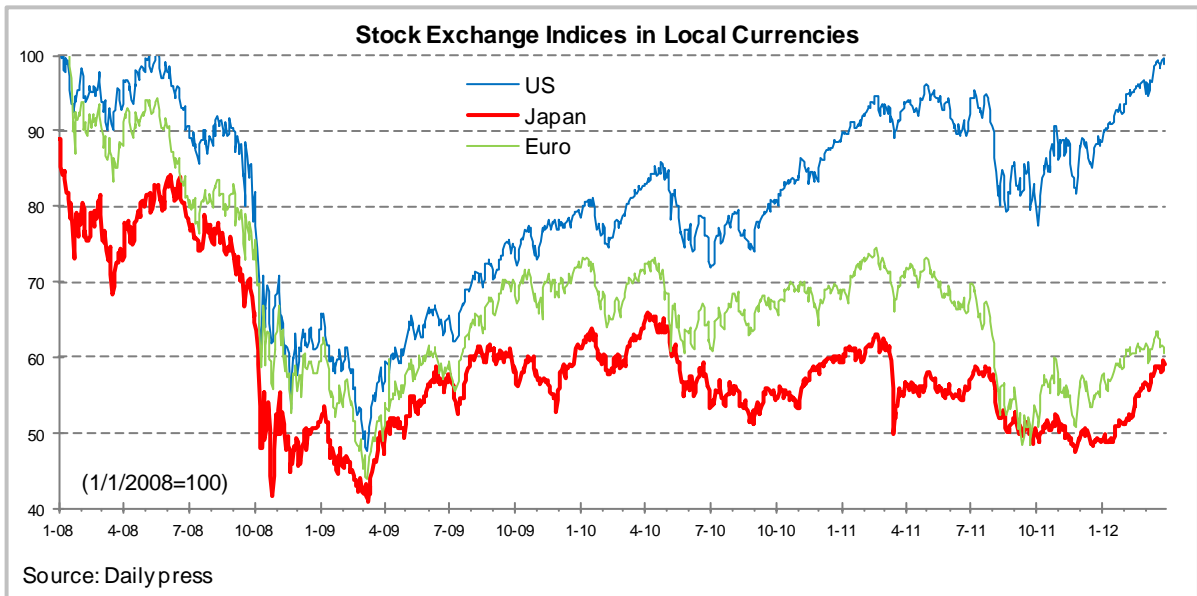
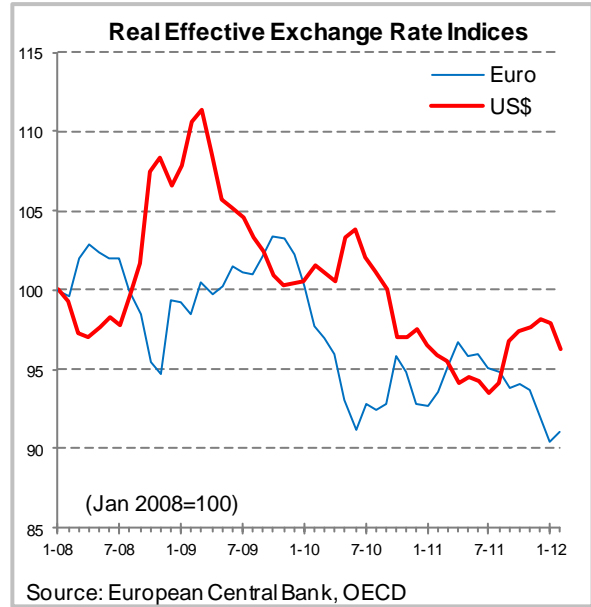
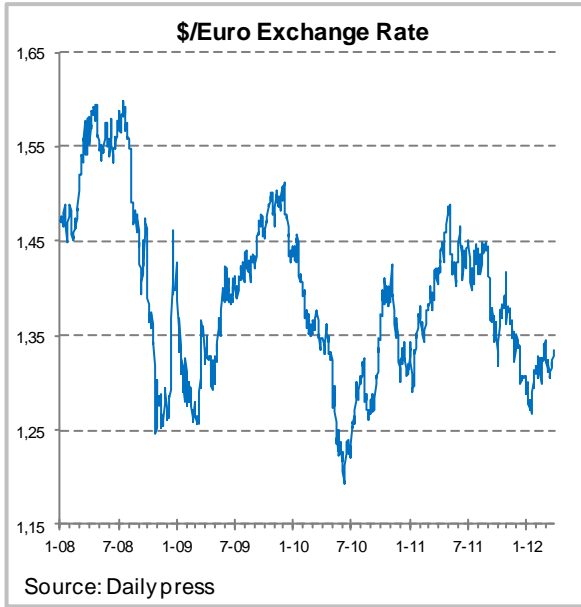
\* Average from 2/1/2012 to latest available data

Sources: European Central Bank and Federal Reserve Bank

- Financial market developments worldwide reflect lower perceived risks as well as diverging economic trends. In particular, stock market rebounded in the US, thanks to good economic performance and in Europe, where the euro sovereign debt crisis has somewhat eased, while in the emerging area investors have become more cautious over the last month as some doubts on prospects start emerging, particularly for bigger countries.
- The European Central Bank (ECB) has acted aggressively since December. It lowered the policy rate, stepped up bond purchases and flooded the euro area system with liquidity through two tranches of its Long-Term Refinancing Operations (very cheap three-year loans with relaxed collateral requirements). This massive monetary intervention has eased banks' funding pressures although credit remains sluggish and loans to non-financial corporations keep decelerating in line with weakness in economic activity and tightening in financial conditions. In fact, it should be expected that lending activity will benefit from ECB's non standard measures only with a lag. The Euribor-OIS differential, a gauge of interbank lending stress, has fallen significantly since December signalling an improvement in the health of the euro area financial system.
- Most importantly, European leaders have negotiated a new bailout package for Greece by end-February and also the debt exchange deal (which represent an orderly public debt restructuring including a haircut) involving the private sector (PSI) early this month was successful. Despite this, yields of other distressed countries remain high, albeit lower than a few months ago, as the region remains still exposed to financial risks. In particular, in recent days some nervousness has re-emerged, sending sovereign spreads higher, mainly related to Spanish woes.

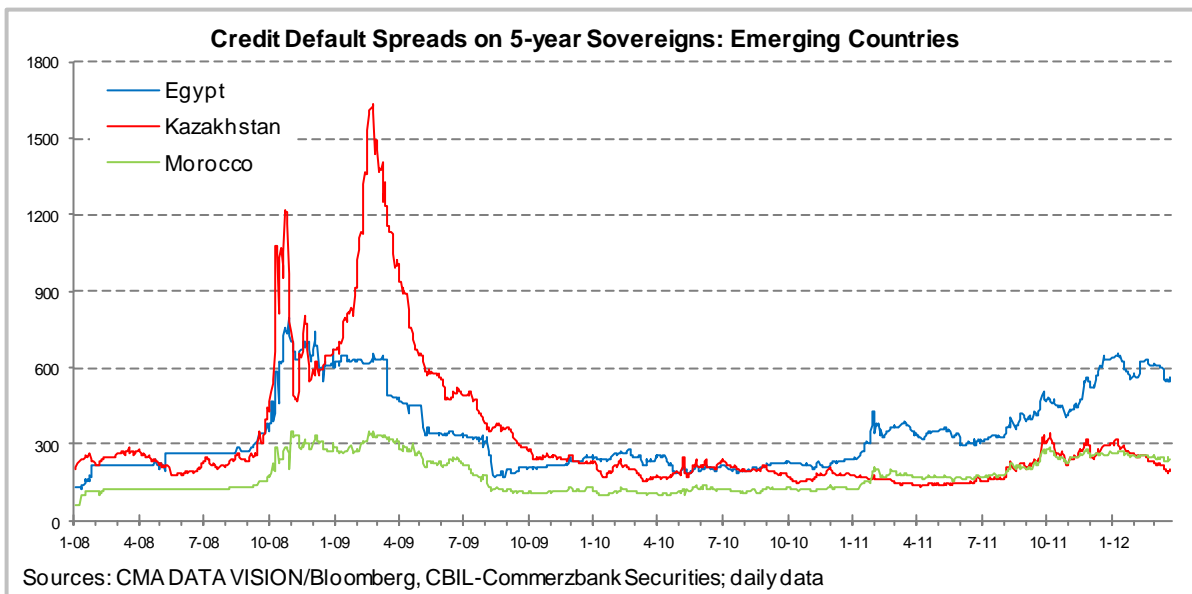
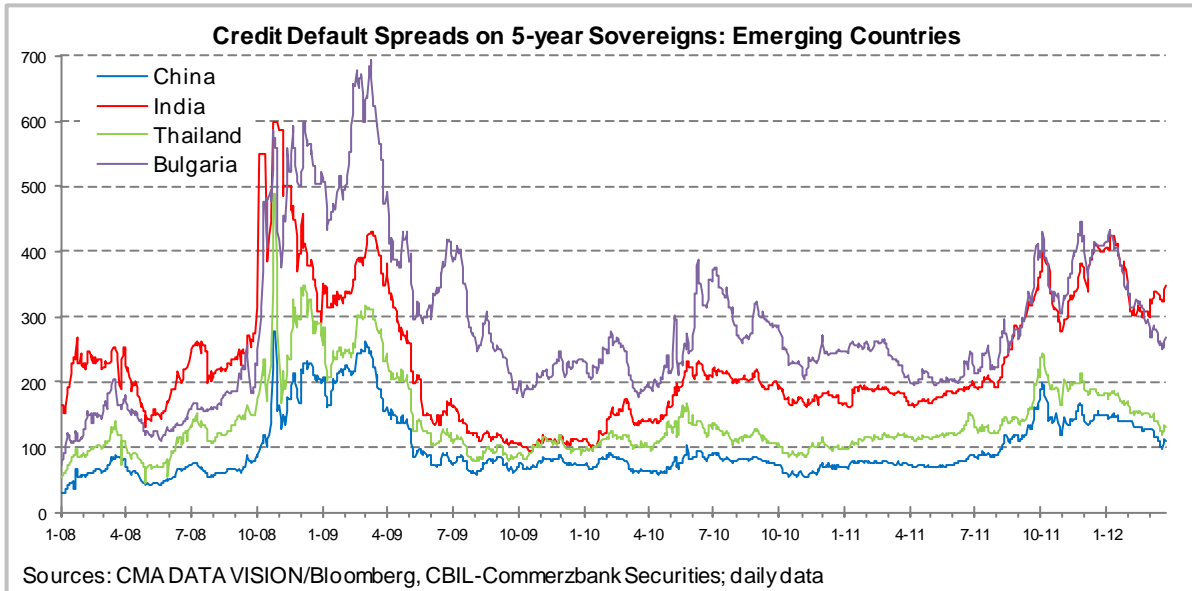
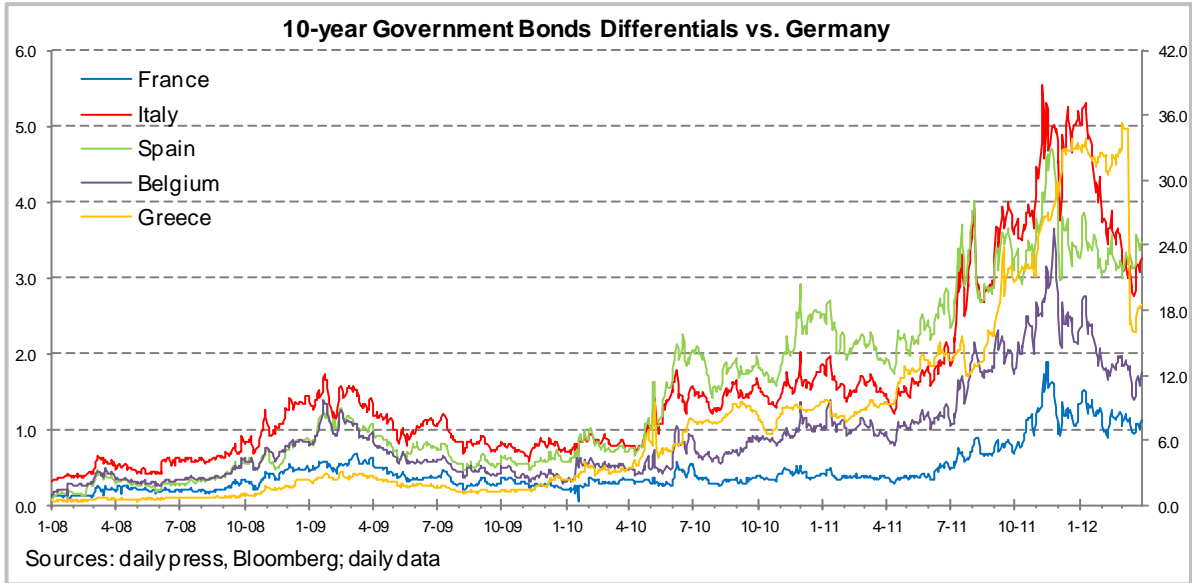


## FINANCIAL INDICATORS

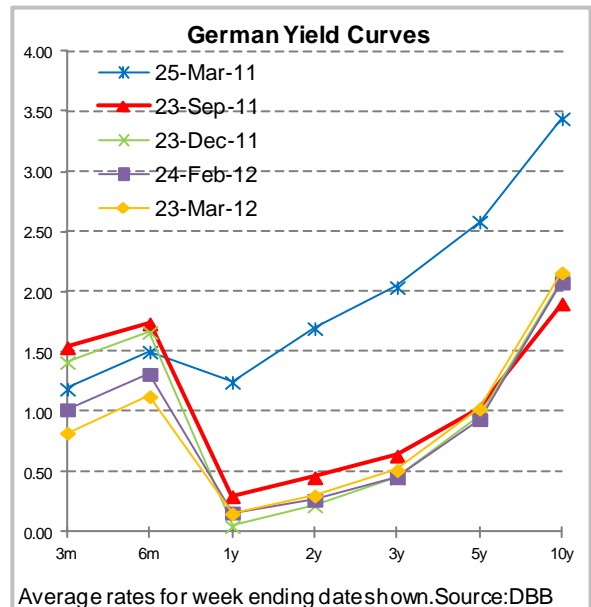
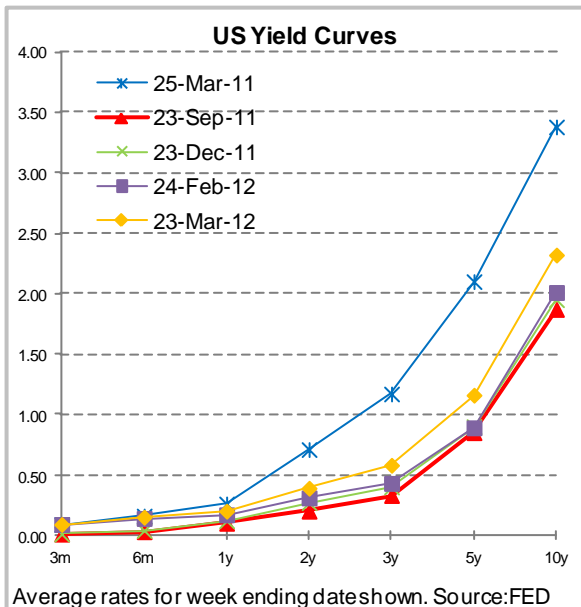
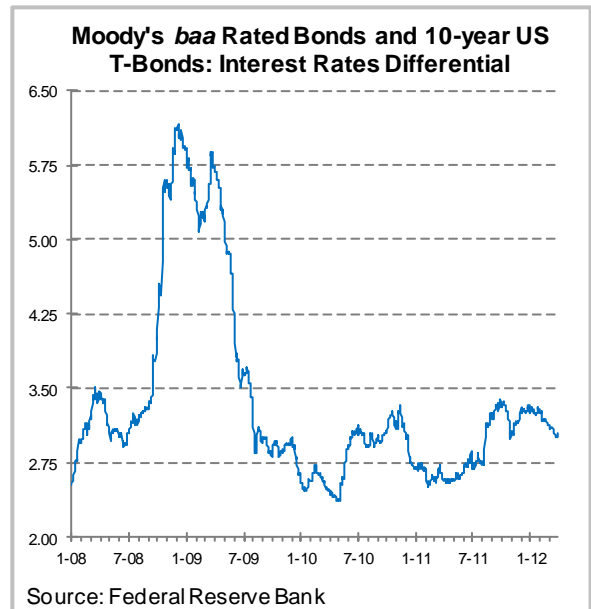
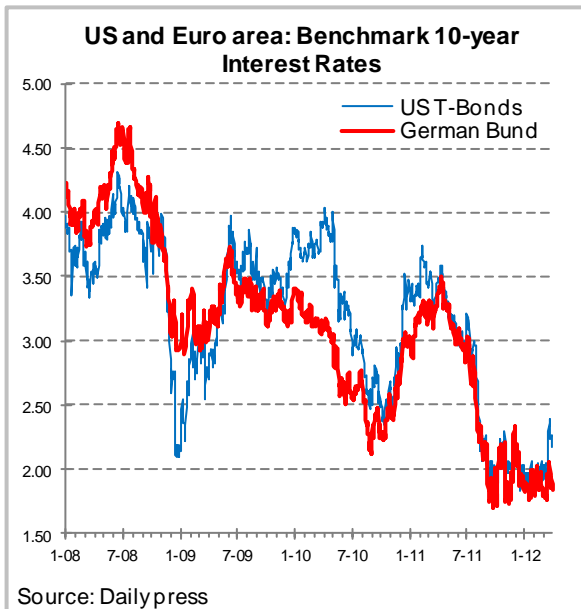
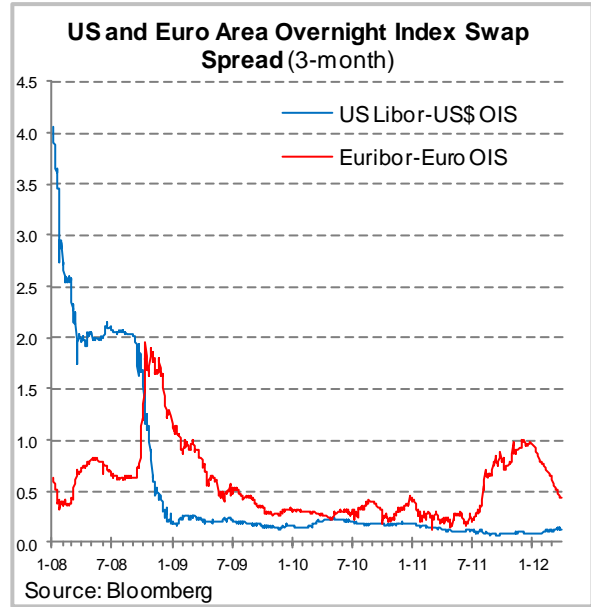
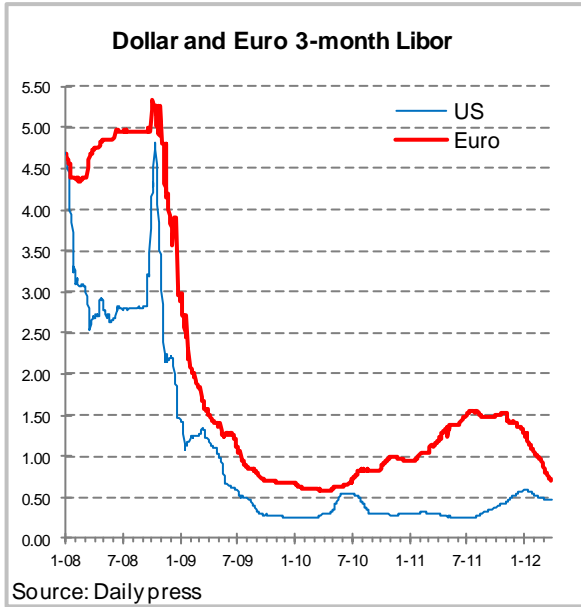




## FINANCIAL INDICATORS



## FINANCIAL INDICATORS



n. 1 - March, 30<sup>th</sup> 2012

## UNITED STATES

Real Indicators*	2009	2010	2011	Latest
GDP	-3.5	3.0	1.7	1.6 Q4
Industrial Production	-11.2	5.3	4.2	0.0 Feb**
Construction Investment	-17.3	-8.6	-1.6	-0.1 Q4
Consumer Prices***	-0.4	1.6	3.2	2.9 Feb
Producer Prices – Finished Goods***	-2.6	4.2	6.0	3.3 Feb
Hourly Earnings – Manufacturing***	2.8	2.0	1.8	0.7 Feb
Standardised Unemployment Rate (%)	9.3	9.6	9.0	8.3 Feb
Current Account Balance (US\$bn)	-376.6	-470.9	-473.4	-473.4 Q4°
- as a percentage of GDP	-2.7	-3.2	-3.1	-3.1
Real Effective Exchange Rate Index <sup>§</sup>	104.5	100.0	99.7	95.5 Feb

\* % yoy ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q4 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (3m CD)	0.55	0.31	0.30	0.30 Feb
Long Term Interest Rate pa (benchmark 10y)	3.26	3.22	2.78	1.97 Feb
Stock Exchange (S&P 500) Index (% ch)*	-22.5	20.3	11.3	11.5 28/03/12**

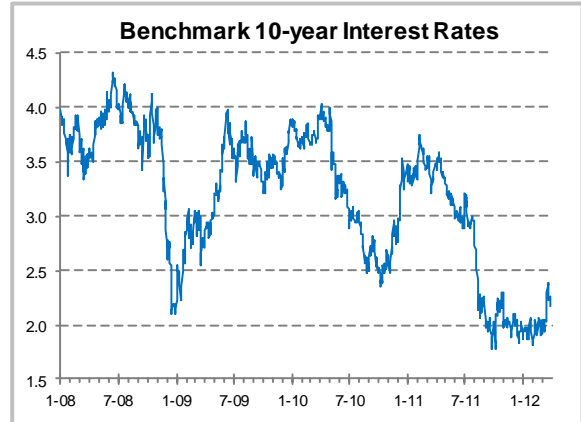
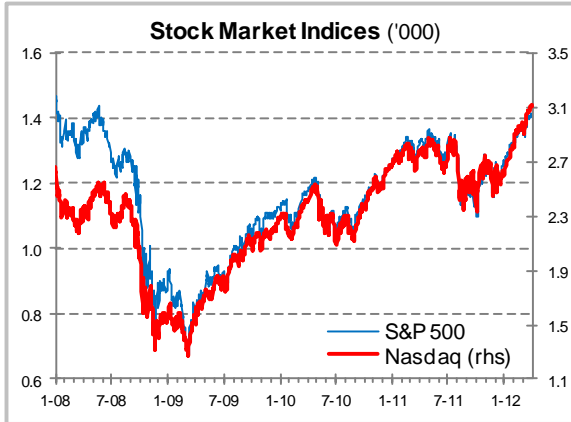
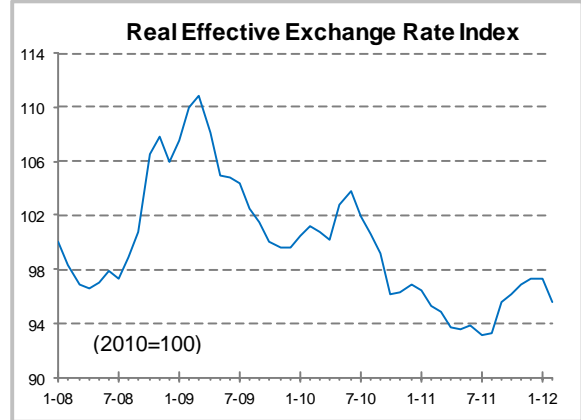
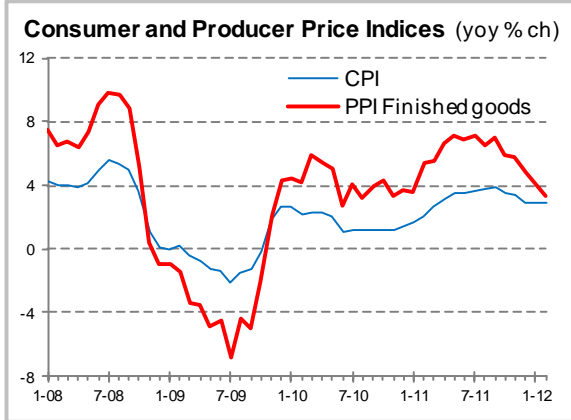
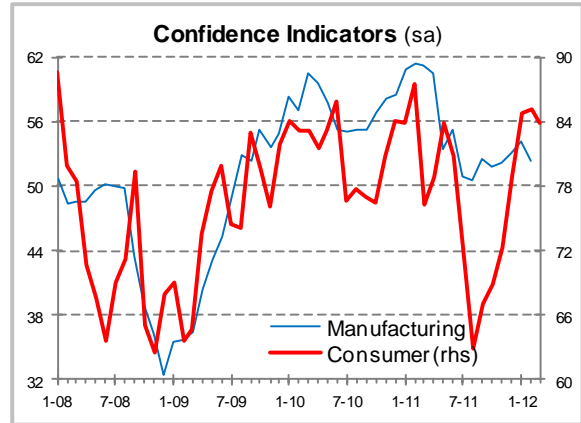
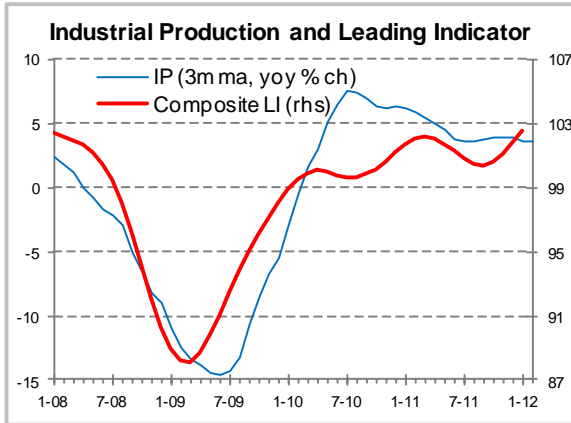
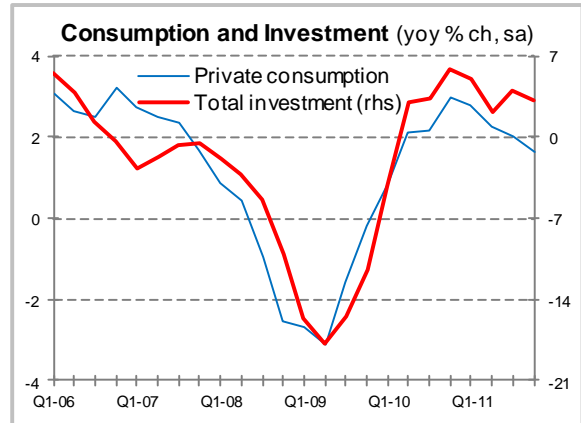
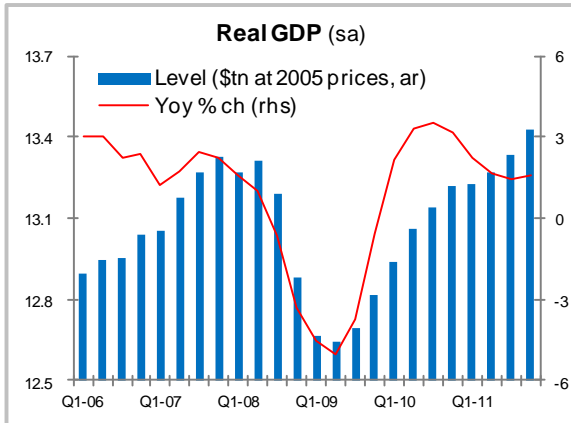
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *The US economy is holding up relatively well and recent improvements in the labour market suggest that spending may regain momentum in upcoming months. A significant risk stems from high energy prices, while risks related to the euro area woes appear to have moderated.*

- Economic growth was stronger than expected in Q4 11 (+0.7% qoq). However, at a closer inspection the overall picture is one of a modest expansion as domestic demand grew moderately while the major contribution to growth stemmed from inventory accumulation which may contribute to curtailed production plans later this year.
- Also recent data suggest that the US economy is doing relatively well. Retail sales, in particular, are growing at double digit rates driven by booming car sales.
- The most important development in the macro environment is that businesses are finally hiring at a more robust pace. Nonfarm job growth has averaged 245,000 units in the three months to February, a number which is deemed more than enough to substantively bring down unemployment.
- High gasoline prices represent a growing threat to the economy while recent signs from the manufacturing sector are mixed. As a matter of fact, in the latest ISM survey new orders, employment and production appear to be moderating, while export orders are strengthening.
- Monetary policy remains loose although the ongoing relatively good performance of the economy implies that odds of any further easing have reduced.
- Given this is an electoral year, it is unlikely that the issue of fiscal sustainability will be brought to the fore and that fiscal consolidation measures will be initiated. This, however, only shifts the problem which is potentially destabilising not only for the US but also at global level.

## UNITED STATES



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

## CANADA

Real Indicators*	2009	2010	2011	Latest
GDP	-2.8	3.2	2.5	2.2 Q4
Industrial Production	-11.5	6.1	3.6	0.5 Dec**
Construction Investment	-10.9	9.2	4.7	2.9 Q4
Consumer Prices***	0.3	1.8	2.9	2.6 Feb
Producer Prices - Manufacturing***	-3.5	1.0	4.6	1.7 Feb
Hourly Earnings - Manufacturing***	-5.0	4.9		3.1 Dec
Standardised Unemployment Rate (%)	8.3	8.0	7.4	7.4 Feb
Current Account Balance (Can\$bn)	-45.2	-50.9	-48.3	-48.3 Q4°
as a percentage of GDP	-3.0	-3.1	-2.8	-2.8
Real Effective Exchange Rate Index <sup>§</sup>	91.6	100.0	100.3	100.6 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q4 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (o/n)	0.39	0.60	1.00	1.00 Feb
Long term interest rate pa (benchmark 10y)	3.23	3.24	2.79	2.00 Feb
Stock Exchange (TSE) Index (% ch)*	-18.7	18.7	7.4	3.5 28/03/12**

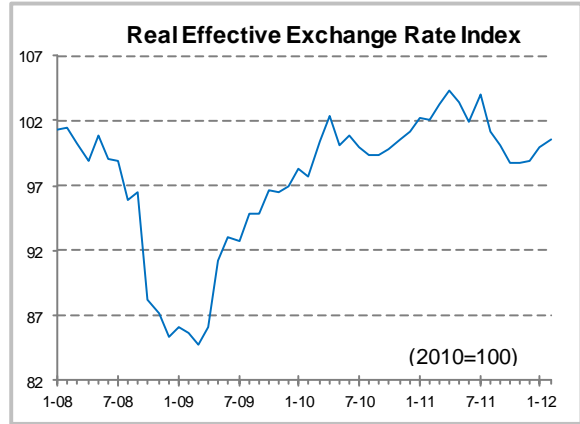
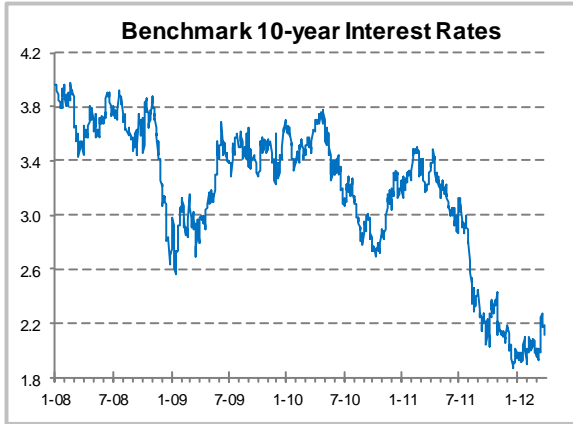
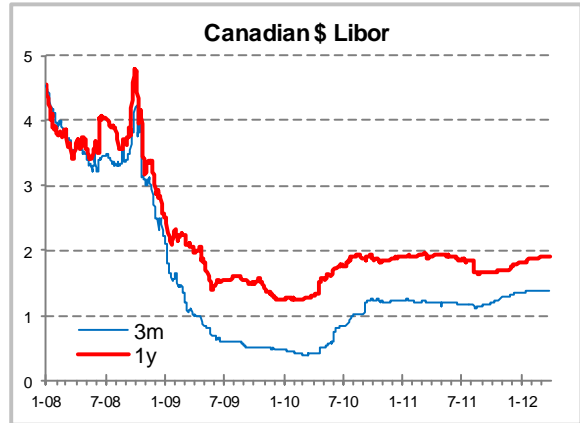
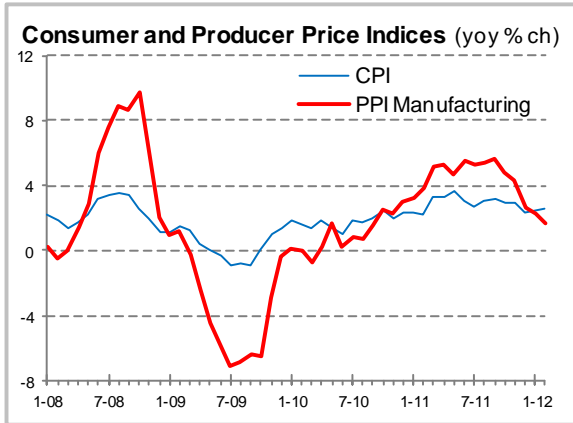
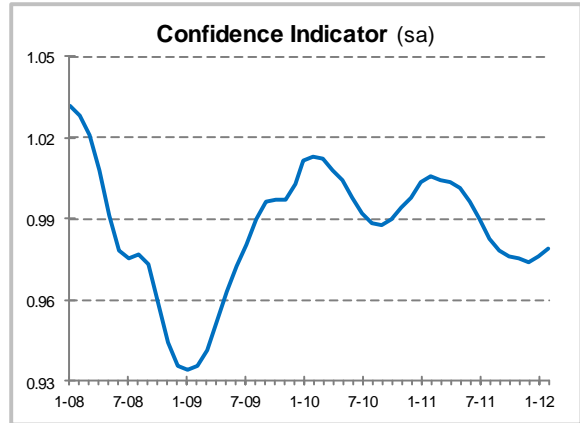
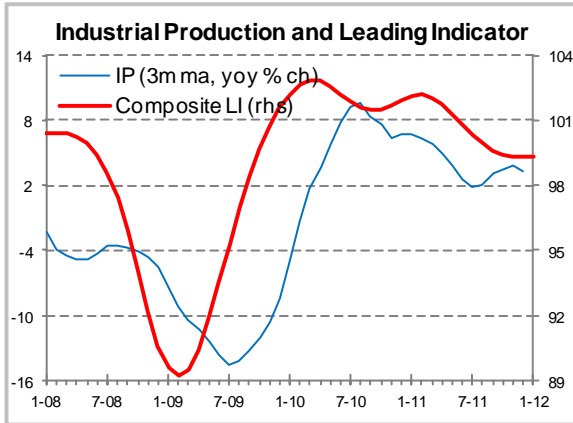
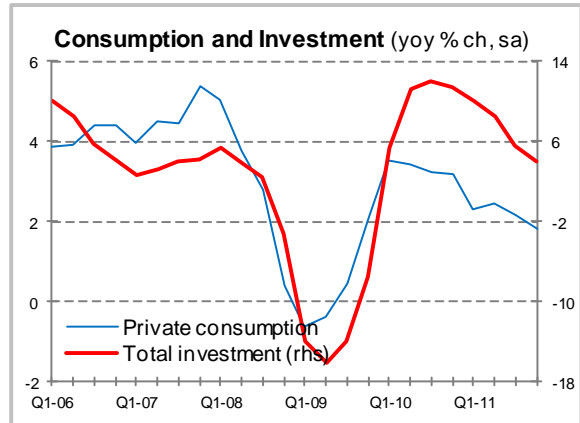
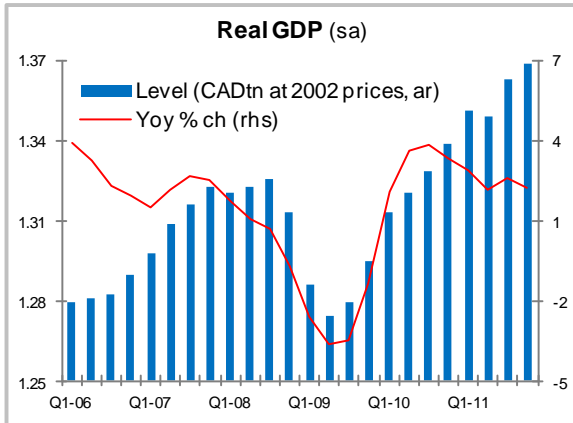
\* Average over year; \*\* % change on 30/12/11

Sources: OECD, Statistics Canada, BIS, daily press

**Key message:** *The Canadian economy is enjoying a favourable economic juncture. Healthy domestic demand is set to balance slowing export, the latter being hurt by both slower perspective demand and the strong Canadian dollar.*

- The economy lost some momentum in Q4 11 primarily due to a slowdown in export while private consumption accelerated on the previous quarter.
- Overall the economic environment remains favourable given a stronger than expected US and persistently high commodity prices. These represent also two of the main sources of risk. As a matter of fact, a weaker momentum in the US may depress demand. In addition, high commodity prices are indirectly contributing to the appreciation of the Canadian dollar hence hurting export. Another major potential destabilising issue is represented by the still high level of households indebtedness.
- Although public finances are in far better health than other developed countries, the government intends to press ahead with fiscal consolidation meaning that further fiscal stimulus plans are unlikely.
- As core inflation remains subdued and given the economy is expected to grow around its trend in the coming months the Bank of Canada decided to leave its policy rate unchanged. The Governor also stated that: domestic demand strength is going to balance perspective weaker export, the financial system is functioning well, and there is at present considerable monetary stimulus. Against this backdrop, interest rate hikes may come sooner than anticipated (albeit not in the very near-term).

# CANADA



Sources: OECD, Statistics Canada, BIS, daily press

## FRANCE

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-2.6	1.4	1.7	1.3 Q4
Industrial Production	-12.8	4.9	2.3	0.3 Jan**
Construction Investment	-5.8	-4.9	-0.2	1.0 Q4
Consumer Prices - Harmonised Index***	0.1	1.7	2.3	2.5 Feb
Producer Prices - Manufactured Goods***	-7.3	3.3	5.9	3.8 Feb
Hourly Earnings - Manufacturing ( <i>ouvriers</i> )***	2.1	1.8	2.4	2.3 Q4
Standardised Unemployment Rate (%)	9.5	9.8	9.7	10.0 Jan
Current Account Balance (€bn)	-28.4	-33.7		-46.4 Q3°
as a percentage of GDP	-1.5	-1.7		-2.3
Real Effective Exchange Rate Index <sup>§</sup>	104.1	100.0	99.6	96.8 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q3 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (Euro Libor 3m)	1.22	0.81	1.39	1.05 Feb
Long Term Interest Rate pa (benchmark 10y)	3.65	3.12	3.32	3.02 Feb
Stock Exchange (CAC) Index (% ch)*	-23.1	12.1	-4.3	8.6 28/03/12**

\*Average over year; \*\* % change on 30/12/11

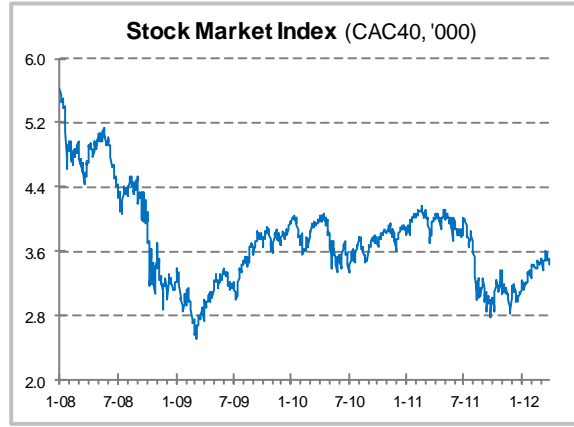
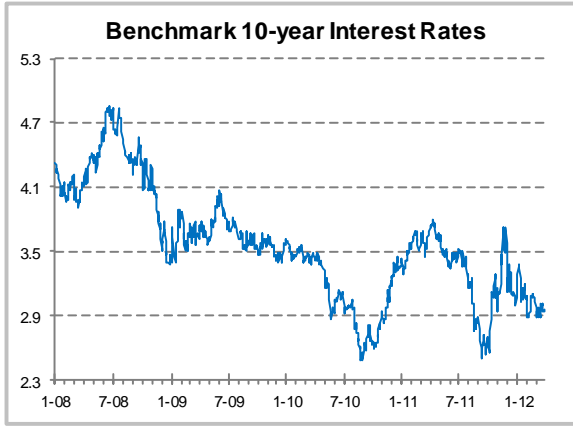
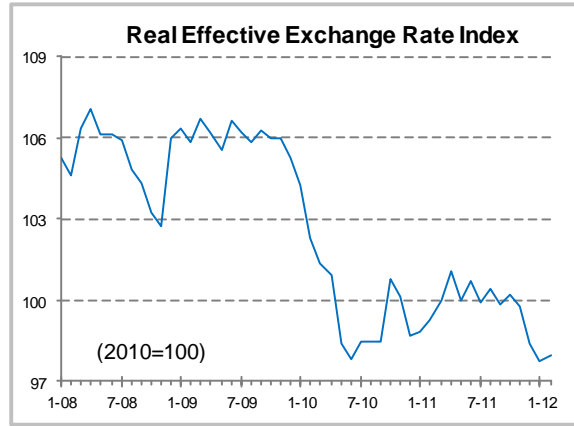
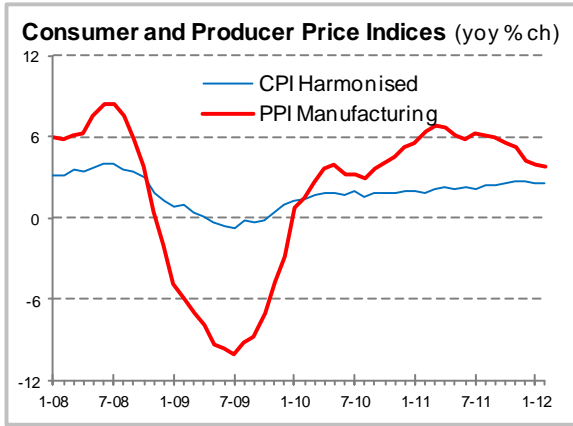
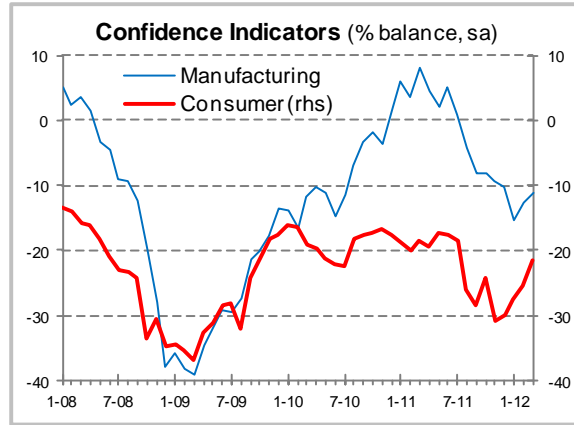
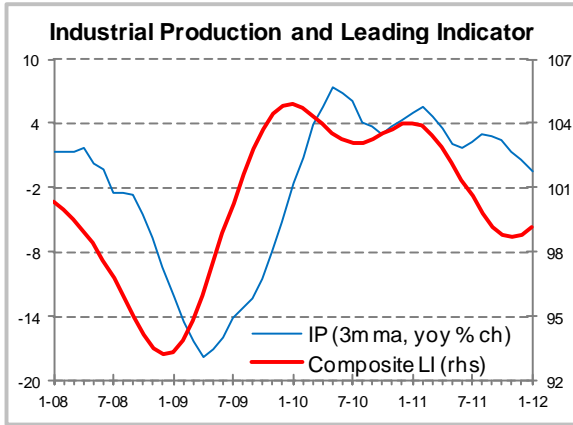
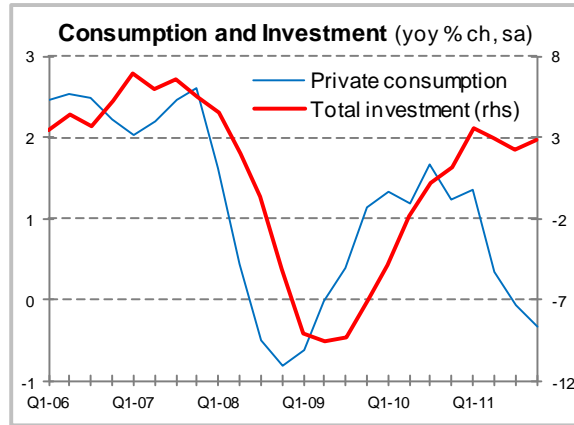
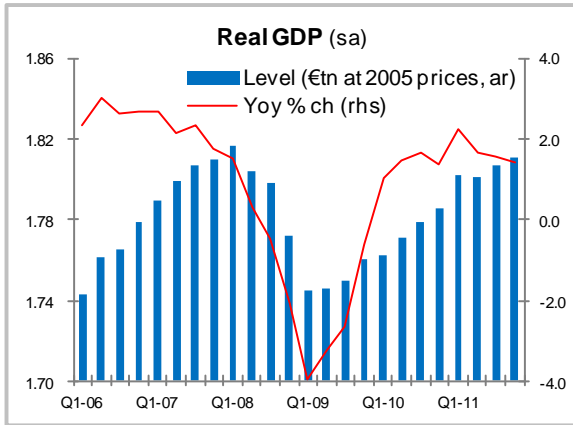
Sources: OECD, Banque de France, INSEE, BIS, daily press

**Key message:** France entered 2012 at a slightly better pace than expected. Still disappointing labour market figures, tight credit, fiscal austerity, and weak external support point to a muted H1 12 while economic conditions should improve later on.

- The economy surprised on the upside in Q4 11 as stronger than expected investment and relatively resilient consumption lifted GDP growth to 0.2% qoq against forecasts of a mild contraction. Larger than usual aeronautic sales supported export which remained positive in the face of falling import.
- While Q4 11 results suggest that a clear-cut recession may be avoided, preliminary indications point to moderating economic activity over the coming months and a possible turnaround in H2 11 (as suggested by the OECD leading indicator and by most recent readings of confidence surveys and PMIs)
- After hitting a two-year low in Q2 11 the unemployment rate rose again in H2 11 to be close to 10% by year-end, with impressive figures among youths. Despite a generous welfare system and high savings, this raises concerns about the resilience of households spending. In addition, credit conditions remain challenging albeit the ECB decision to offer low-interest loans to banks in the euro area has significantly eased the risk of a banking crisis.
- Albeit on a downward trend, inflation remains relatively elevated not only because of high energy prices but also due to increases in administered prices and indirect taxes since January this year.
- Last November austerity package worth €65bn over 2012-16 will undoubtedly weigh down on perspective overall growth and the deficit to GDP target rate of 4.5% may dictate further consolidation measures, which could be difficult to implement before the incoming election cycle is over.



# FRANCE



Sources: OECD, INSEE, BIS, daily press

## BELGIUM

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-2.7	2.3	1.9	1.0 Q4
Industrial Production	-11.8	8.3	4.2	-2.9 Dec**
Construction (Gross Value Added)	-1.9	0.5	3.2	1.9 Q4
Consumer Prices – Harmonised Index***	0.0	2.3	3.5	3.3 Feb
Producer Prices***	-5.4	6.9	9.0	4.7 Jan
Hourly Earnings-Industry***	2.6	1.1	1.3	1.6 Q4
Standardised Unemployment Rate (%)	7.9	8.3	7.2	7.4 Jan
Current Account Balance (bn €)	-5.7	5.2		-1.1 Q3°
as a percentage of GDP	-1.7	1.5		-0.3
Real Effective Exchange Rate Index <sup>§</sup>	103.2	100.0	99.7	99.9 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q3 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (Euro Libor 3m)	1.22	0.81	1.39	1.05 Feb
Long Term Interest Rate pa (benchmark 10y)	3.90	3.46	4.23	3.70 Feb
Stock Exchange (BEL20) Index (% ch)*	-31.8	19.7	-5.5	11.5 28/03/12**

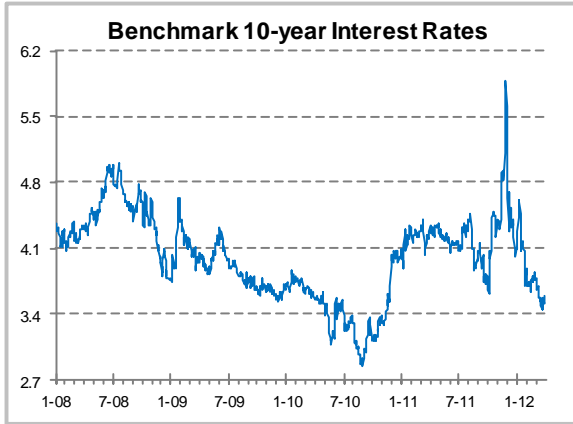
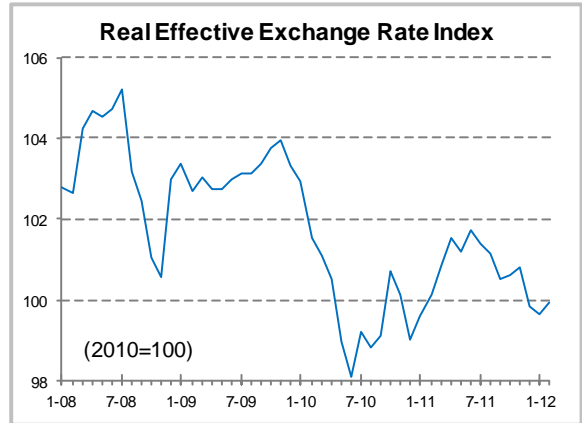
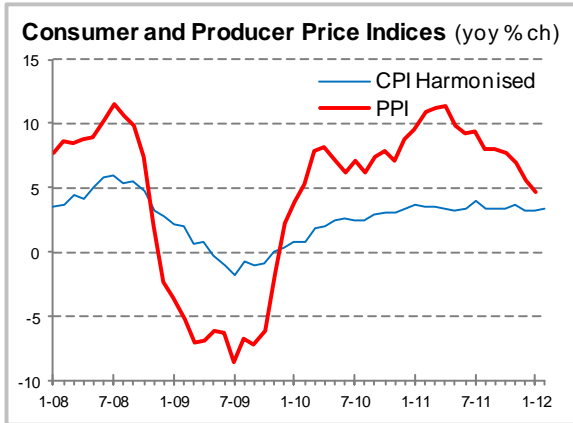
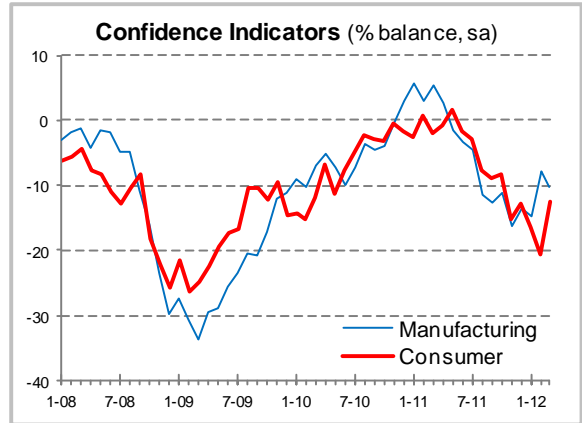
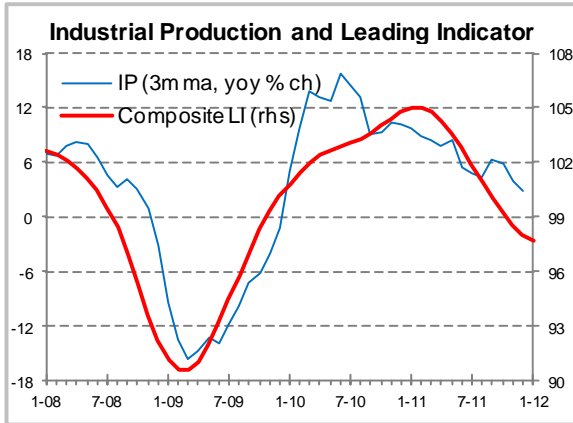
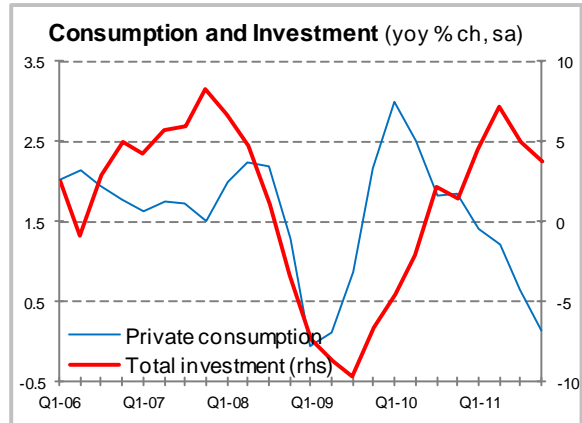
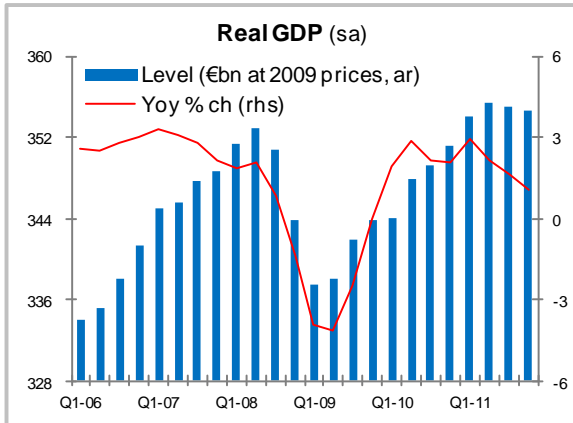
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *The Belgian economy is facing a challenging economic juncture while political jitters may re-emerge at any time. The high level of public debt continues to make the country vulnerable to the euro area sovereign debt crisis.*

- GDP contracted again, albeit mildly, in Q4 11 ushering Belgium into technical recession. Many leading indicators point to further sluggishness ahead. In particular, prospects for households demand are held down by relatively high inflation, a tighter fiscal stance, and low confidence levels.
- In December 2011 a coalition government was finally formed, headed by Prime Minister Di Rupo, following a 19-month long political crisis marked by still unresolved tensions between the two linguistic communities.
- The government is planning another €2-2.5bn package in spending cuts or tax increases in order to meet the deficit/GDP target of 2.8% which had been agreed with the EU on the basis of overoptimistic growth projections. In addition, last year deficit was higher than expected (an estimated 4% instead of 3.6%). New austerity measures are raising again tensions among the linguistic communities on how these should be shared between the two regions and also between them and the federal government.
- Inflation continues to be higher than the euro area average, also highlighting a competitiveness issue. According to estimates by the National Bank of Belgium half the difference in the inflation rate between Belgium and its three direct neighbours (Germany, France and the Netherlands) is accounted for by higher energy prices, particularly for electricity and gas. In order to implement a revision of the pricing system and to improve price transparency the government has announced it will freeze the price of electricity and gas for nine months since April.

# BELGIUM



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

## ITALY

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-5.5	1.8	0.5	-0.4 Q4
Industrial Production	-18.4	5.5		-2.5 Jan**
Construction Investment	-8.8	-4.9	-2.3	-3.2 Q4
Consumer Prices - Harmonised Index***	0.8	1.6	2.9	3.8 Mar
Producer Prices***	-4.7	3.0	4.8	3.1 Feb
Hourly Rates - Industry***	3.2	2.8	2.4	2.4 Feb
Standardised Unemployment Rate (%)	7.8	8.4	8.3	9.2 Jan
Current Account Balance (€bn)	-30.1	-54.1		-56.9 Q3°
as a percentage of GDP	-2.0	-3.5		-3.6
Real Effective Exchange Rate Index§	104.5	100.0	99.6	98.4 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; °latest 12 months up to Q3 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (Euro Libor 3m)	1.22	0.81	1.39	1.05 Feb
Long Term Interest Rate pa (benchmark 10y)	4.31	4.04	5.42	6.55 Feb
Stock Exchange (MIBTEL) Index (% ch)*	-29.6	5.0	-8.8	11.3 28/03/12**

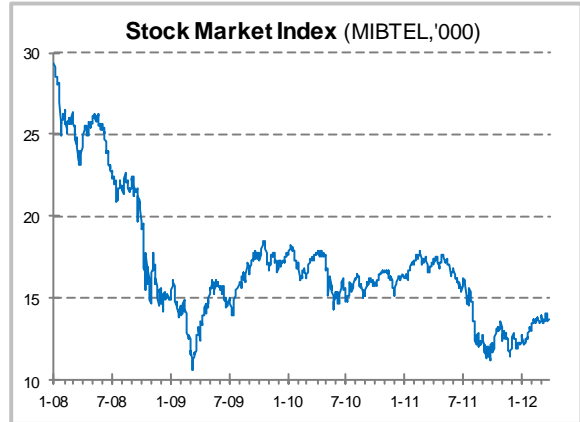
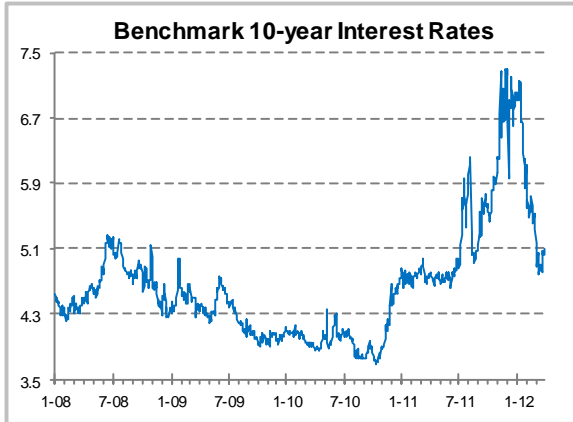
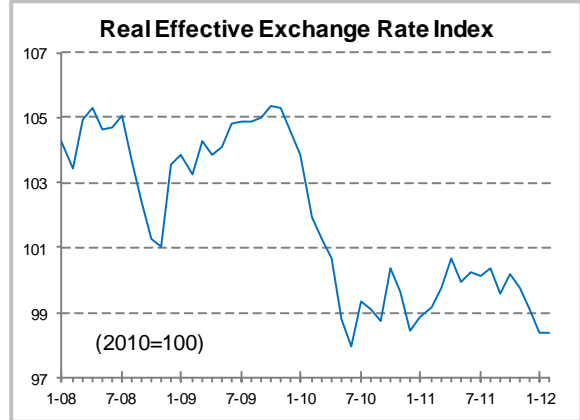
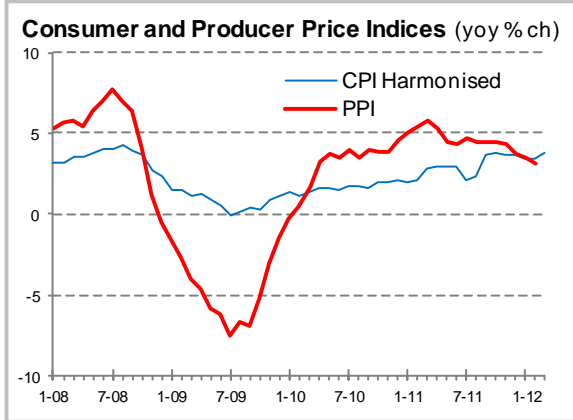
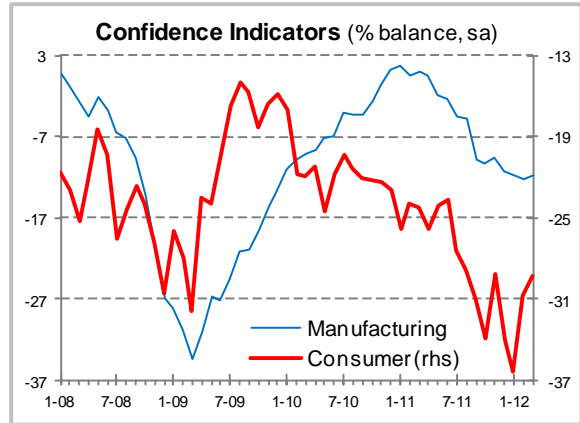
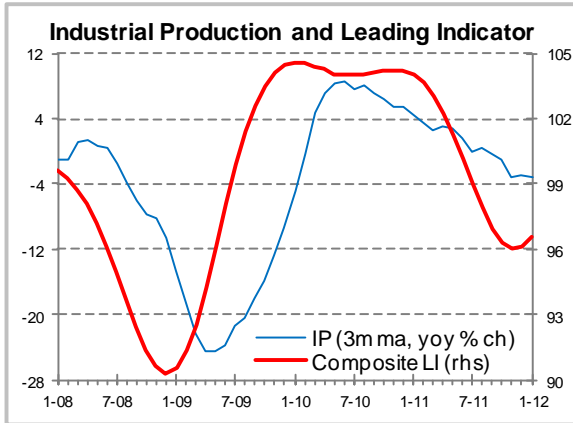
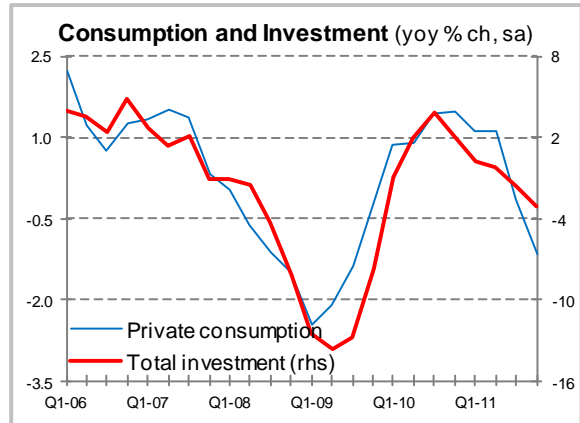
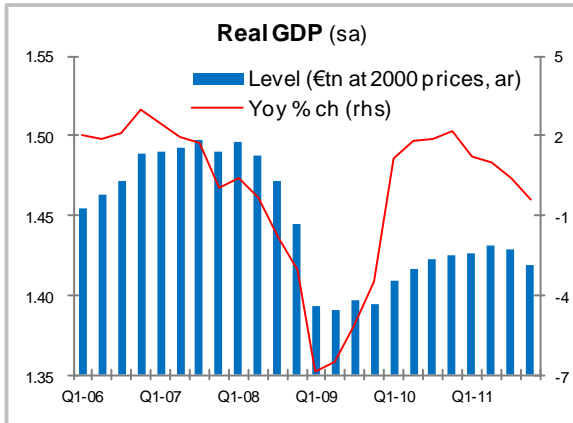
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *Although the most acute and dangerous phase of the sovereign crisis has likely been overcome, Italy is still not out of the woods. The ongoing harsh fiscal consolidation is adding to fading external demand prolonging a recessionary trend in H1 12.*

- National account data for Q4 11 confirmed that Italy slipped again into technical recession as domestic demand acted as a drag on overall GDP growth. Recent data on industrial production, orders and sales point to continuing weakness in both domestic and foreign markets although looking at the OECD leading indicator the worst may be behind.
- The overall tone of the economy remains gloomy with sentiment levels improving slightly possibly buoyed by confidence on the new technical government. Unemployment continues to rise and is now up to its highest level since the current measure record began; export prospects have deteriorated due to the ongoing euro area weak demand; inflation persists dragging on consumer spending; and the fiscal stance has tightened considerably with a sharp negative impact still to be felt given that local tax increases are coming into effect for pensioners and employees.
- On a more positive note, the spread between Italian and German benchmark bonds has fallen significantly since the appointment of the new government, signalling improved market sentiment on economic policy management as well as a recovered standing of the country particularly within the EU. In addition, recent ECB longer-term refinancing operations have benefitted the Italian banking system although bank lending to the private sector continues to decelerate in the wake of tightening lending standards and weak economic conditions.
- The government is making efforts to set up measures aimed at liberalising overprotected sectors as well as reforming the labour market, but resistances are intense while social tensions are increasing

# ITALY



Sources: OECD, ISTAT, BIS, daily press

## SPAIN

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-3.7	-0.1	0.7	0.3 Q4
Industrial Production	-15.8	0.8	-1.5	-0.2 Jan**
Construction Investment	-15.4	-10.1	-8.1	-8.1 Q4
Consumer Prices - Harmonised Index***	-0.2	2.0	3.1	1.9 Feb
Producer Prices - Manufacturing***	-3.4	3.2	6.9	3.4 Feb
Hourly Earnings***	5.0	1.3		4.7 Q3
Standardised Unemployment Rate (%)	18.0	20.1	21.7	23.3 Jan
Current Account Balance (€bn)	-54.5	-48.4		-43.9 Q3°
as a percentage of GDP	-5.2	-4.6		-4.1
Real Effective Exchange Rate Index <sup>§</sup>	103.3	100.0	99.7	97.4 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q3 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (Euro Libor 3m)	1.22	0.81	1.39	1.05 Feb
Long Term Interest Rate pa (benchmark 10y)	3.97	4.25	5.44	5.11 Feb
Stock Exchange (MSE) Index (% ch)*	-18.3	3.1	-9.8	-6.2 28/03/12**

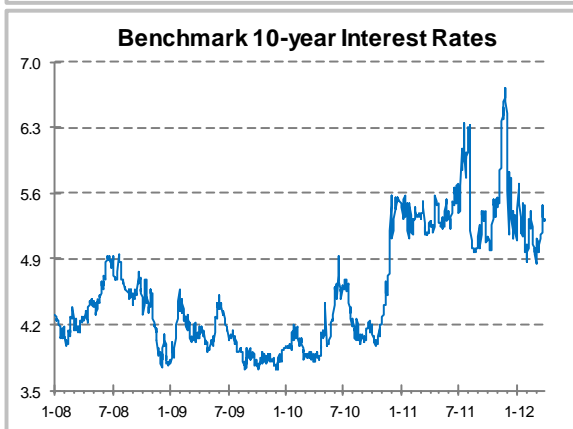
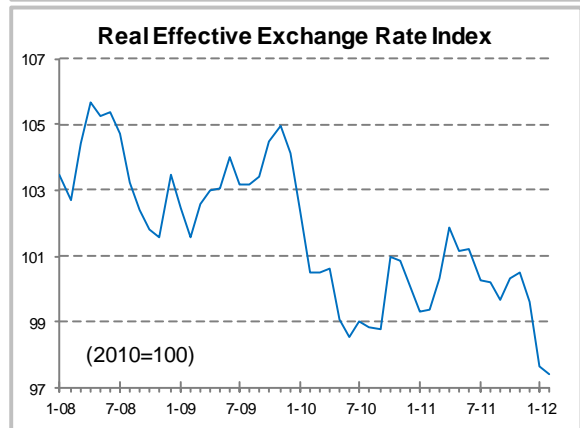
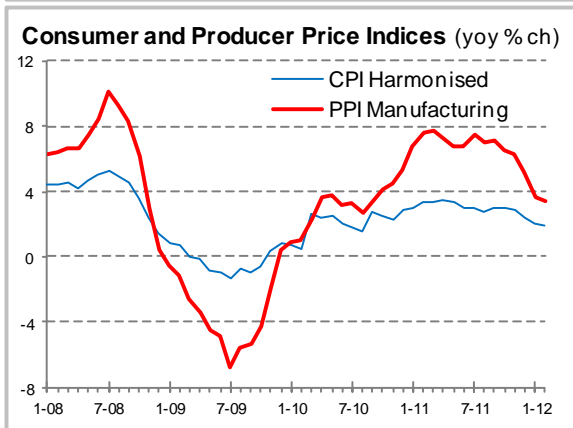
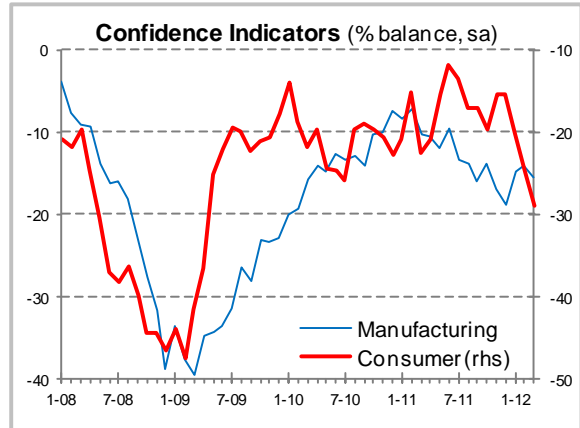
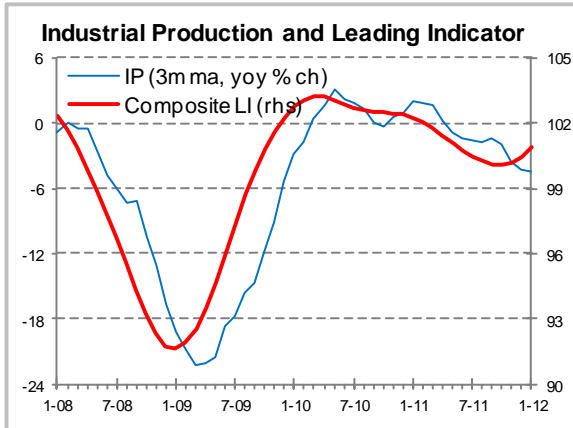
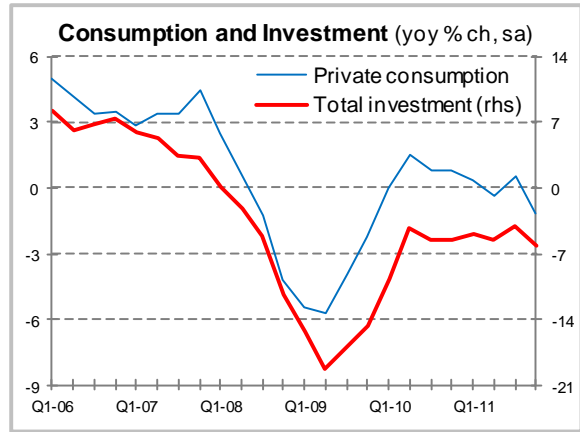
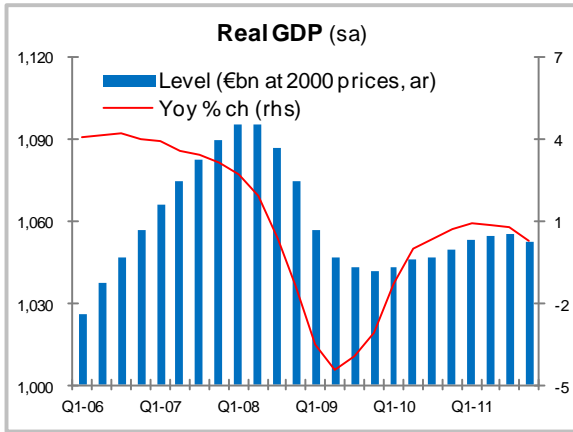
\* Average over year; \*\* % change on 30/12/11

Sources: OECD, INE, BIS, daily press

**Key message:** *The short-term outlook for Spain continues to be poor as the deteriorated external environment coupled with harsh austerity measures are set to push the economy back into recession.*

- Economic activity turned again negative in Q4 11 also due to a sharp contraction in private consumption.
- The near-term outlook remains gloomy not only given the ongoing recession within the euro area but also due to the package of harsh austerity measures taken by the new government by end-December. These combine big spending cuts with (temporary) hikes in labour and capital income taxes.
- The new government recently reached an agreement with the EU to lift the 2012 deficit target to a more realistic 5.3% in exchange of further fiscal consolidation and the implementation of structural reforms. In this respect the government has already taken steps forward aimed at completing the restructuring of the banking system and reforming the labour market.
- In addition, earlier this year the government approved a new budget stability bill, in line with the provisions set out in last year's balanced budget amendment to the constitution, which dictates that by 2020 no level of government - regional, local or central - will be allowed to run a structural deficit.
- Although it has undergone an intense phase of consolidation and recapitalization, the banking sector remains troublesome due to rising non-performing loans in line with deteriorating economic conditions and higher write-offs of poor-quality property-related loans - as the real estate downturn continues. This in turn could further restrict the supply of credit to the economy.

# SPAIN



Sources: OECD, INE, BIS, daily press



# GREECE

Real Indicators*	2009	2010	2011	Latest
GDP***	1.3	-0.8	-5.3	-7.5 Q4
Industrial Production	-9.2	-6.6	-8.8	2.3 Jan**
Construction Investment***	-10.0	-12.2	-21.4	-22.1 Q4
Consumer Prices – Harmonised Index***	1.3	4.7	3.1	1.7 Feb
Producer Prices – Manufacturing***	-6.8	7.4	8.6	6.1 Feb
Standardised Unemployment Rate (%)	9.5	12.6		18.4 Q3
Current Account Balance (€bn) ***	-25.8	-23.0	-21.1	-21.1 Q4°
as a percentage of GDP	-11.1	-10.1	-9.8	-9.8
Real Effective Exchange Rate Index <sup>§</sup>	100.8	100.0	99.9	96.3 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q4 included; § 2010=100

## Financial Indicators

Short Term Interest Rate pa	1.22	0.81	1.39	1.05 Feb
Long Term Interest Rate pa (benchmark 10y)	5.17	9.09	15.75	29.24 Feb
Stock Exchange (ASE) Index (% ch)*	-36.1	-21.6	-31.9	10.6 28/03/12**

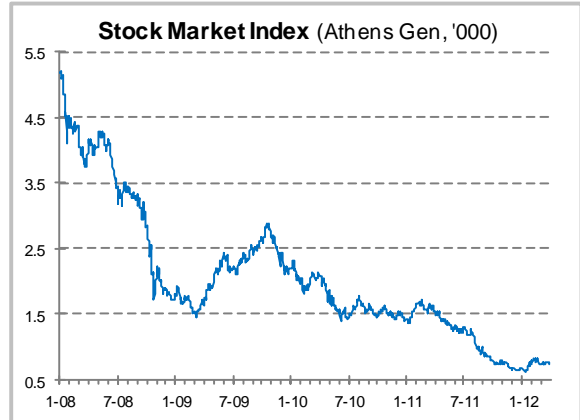
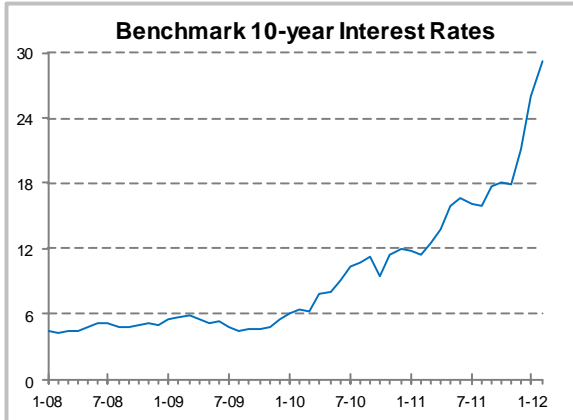
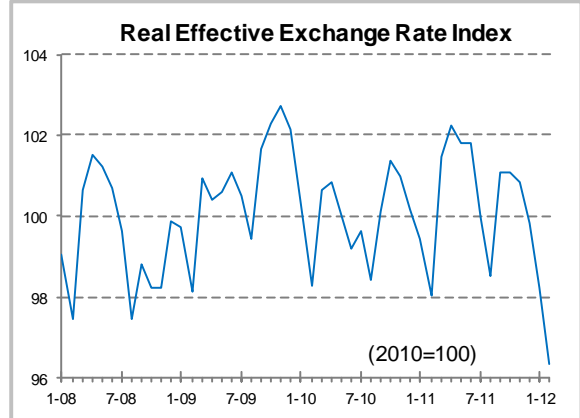
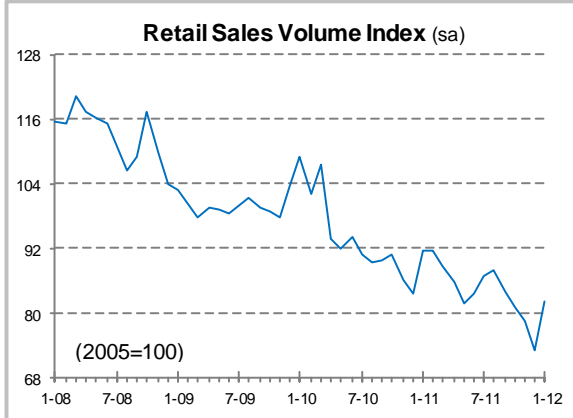
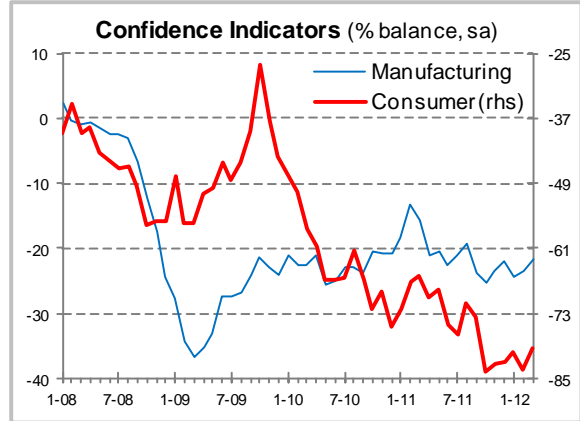
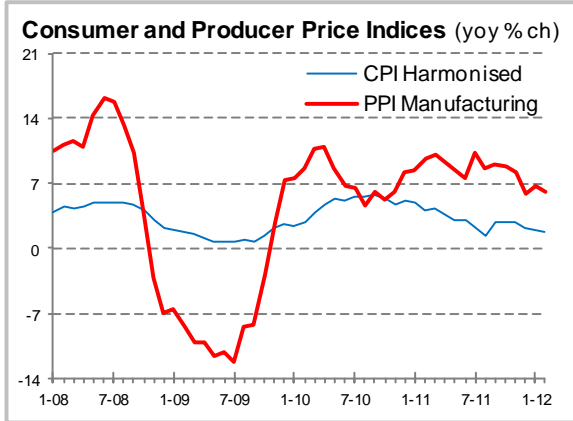
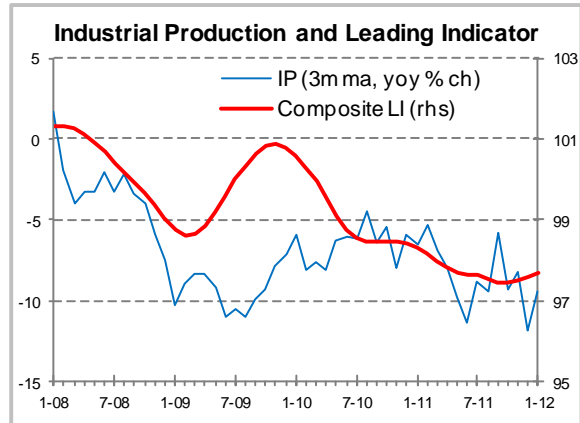
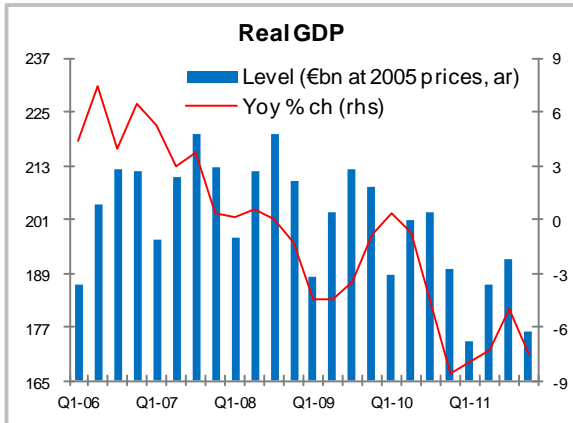
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *The Greek economy is in free-fall. The success of the debt restructuring initiative coupled with the second EU/IMF package could represent the basis on which a turnaround could be anchored should the Government manage to implement a vast array of structural reforms and pursue further fiscal consolidation. Whether this is politically and socially viable is at present questionable.*

- The economy continued to fall in Q4 11 and by the end of the year GDP was down over 12% from its peak (with households consumption levels down by 11% battered by fiscal austerity, record low confidence levels and a dire labour market). The worrying news is that there is no sign of bottoming out at sight and another year of sharp recession is in the pipeline.
- Both industrial production and retail sales indexes are down by more than 30% since the beginning of 2008 and unemployment reached 20.7% in Q4 11.
- Amid so many gloomy developments the recent news that the budget deficit shrank significantly in January-February is particularly welcome. The increase in collection of tax arrears is particularly encouraging although the road to fiscal consolidation remains still long and bumpy.
- Also, the successful debt restructuring deal, earlier this month, paved the way for a second bailout through an EU/IMF package worth €130bn. More than 85% of private bondholders accepted the debt haircut meaning that a disorderly default has been averted at least in the coming months.
- Poverty level is increasing among the population as a perverse spiral of fiscal austerity/recession has been set in motion. Political and social stability may be at risk and the probability that Greece may decide to quit the euro because of the unsustainable costs associated to its membership continues to be non-negligible, even if it declined somewhat recently.

# GREECE



Sources: OECD, BIS, European Commission

## BULGARIA

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-5.5	0.4	1.7	1.6 Q4
Gross Fixed Capital Investment (wda)	-17.6	-18.3	-9.7	-9.7 Q4
Industrial Production – Manufacturing	-22.4	3.9	5.2	-3.0 Jan
Consumer Prices – Harmonised Index	2.5	3.0	3.4	2.0 Feb
Producer Prices – Manufacturing	-9.1	8.4	10.0	5.0 Feb
Unemployment Rate (%)	6.8	10.2	11.1	11.5 Jan
Current Account Balance (US\$bn)	-4.3	-0.8	1.1	1.1 Q4°
as a percentage of GDP	-8.9	-1.3	1.9	1.9
Real Effective Exchange Rate Index <sup>§</sup>	103.6	100.0	99.9	100.7 Feb

\* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q4 included; § 2010=100

### Financial Indicators

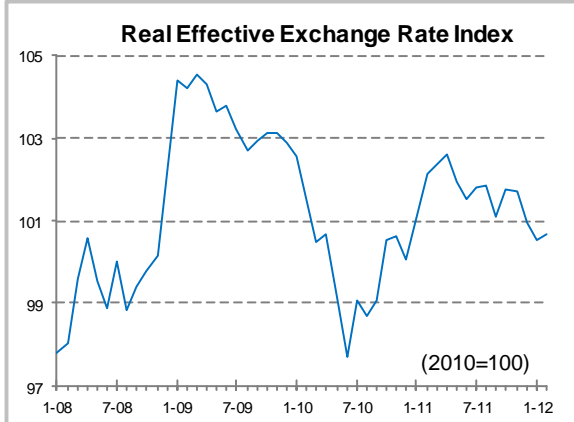
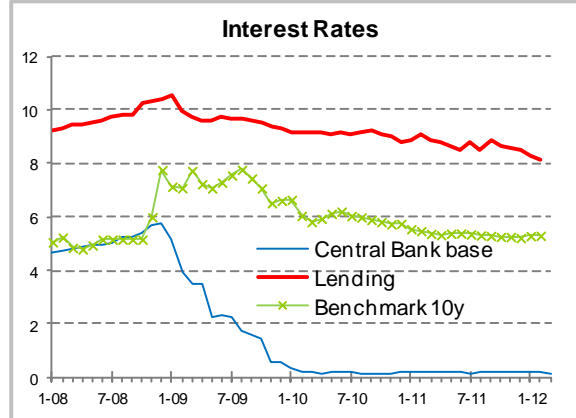
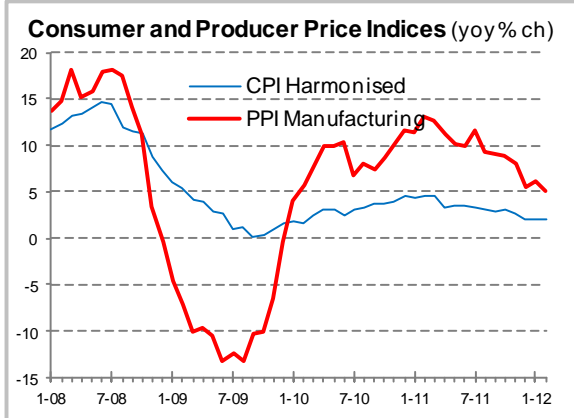
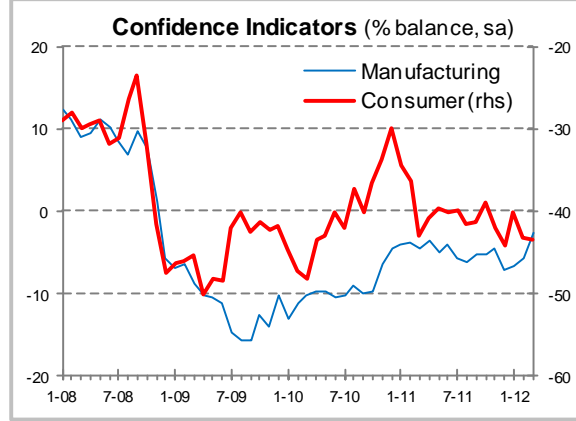
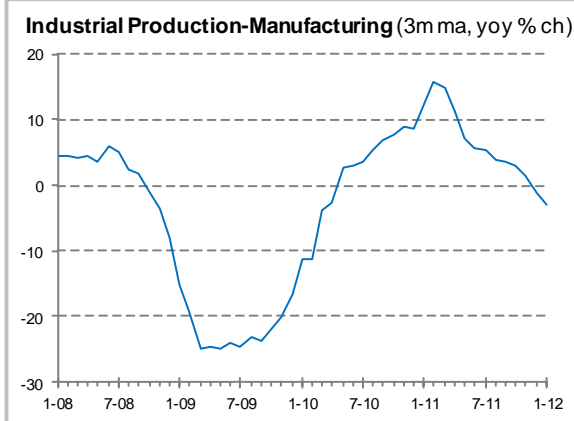
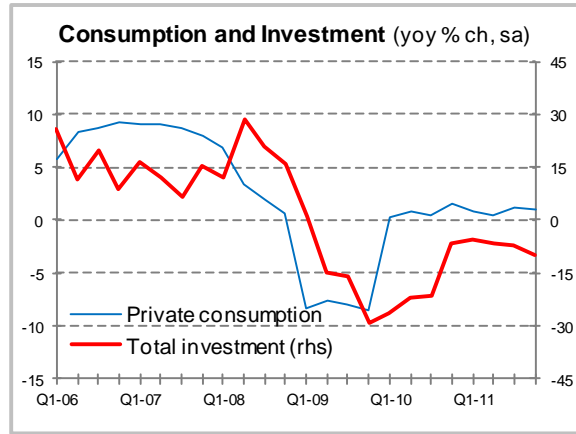
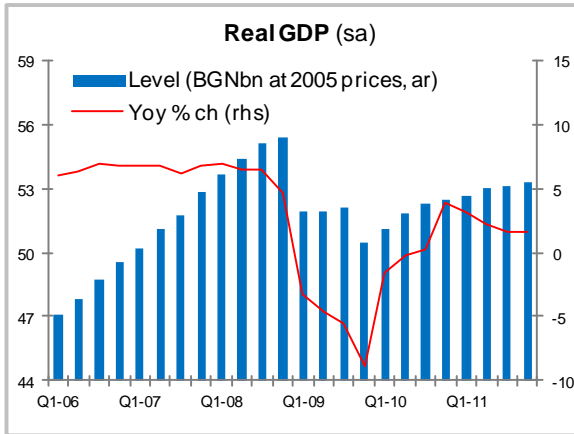
Short Term Interest Rate pa (sofibor o/n)	2.2	0.4	0.5	0.3 Feb
Short Term Interest Rate pa (sofibor 3m)	5.7	4.1	3.8	3.2 Feb
Long Term Interest Rate pa (benchmark 10y)	7.2	6.0	5.4	5.3 Feb

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

**Key message:** *The Bulgarian economy continues to suffer from weak economic fundamentals and a deteriorating external environment. On the positive, sound policy management should help restore foreign investor confidence in the country.*

- Despite strong export performance GDP growth remained weak in Q3 11 particularly as investment continued to contract and consumption failed to recover. The main causes of the poor economic performance remain the continuing process of deleveraging in the corporate sector, tight credit conditions, weak housing and labour markets, austerity on the fiscal front, and fragile business and consumer confidence.
- In order to prevent negative repercussions among investors in the context of the euro area debt crisis, the government has boosted its zeal for fiscal consolidation and structural reforms. This has also meant that the lack of a robust recovery has resulted in fiscal revenues falling short of original targets, which, under the currency board regime, dictates that parallel cuts in expenditures have to be implemented. With the bulk of fiscal consolidation reached last year, only a relatively small extra push should be needed to meet the 1.3% deficit to GDP target for 2012.
- In this context, prospects for exports are lacklustre given the ongoing weakness in many European export partners. As a matter of fact, industrial production ended last year on a negative tone and is trending downwards.
- On the positive side, there are two main developments. First, the absorption of EU funds appears to be constantly improving which is opening up room for investment in public infrastructure. Second, a substantial surplus on the current account has been posted for the first time since 1997 (note that the deficit to GDP ratio peaked at just over 25% in 2007)

# BULGARIA



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

# EGYPT

Real Indicators*	2009	2010	2011	Latest
GDP	4.6	5.7	-0.8	0.4 Q4
Construction Production (GVA)	14.2	12.9	-2.9	-0.6 Q4
Consumer Prices	11.8	11.3	10.2	9.2 Feb
Producer Prices	-5.6	12.7	14.7	8.8 Feb
Unemployment Rate (%)	9.4	9.0	12.0	12.4 Q4
Current Account Balance (US\$bn)	-3.2	-4.9		-4.1 Q3°
as a percentage of GDP	-1.6	-2.1		-1.7
Real Effective Exchange Rate Index	87.3	96.0	95.4	99.4 Feb

\* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; ° latest 12 months up to Q3 included;

## Financial Indicators

Short Term Interest Rate pa (overnight)	9.5	8.3	9.0	9.7 Jan
Short Term Interest Rate pa (91 days T-Bill)	10.3	9.6	11.8	13.9 Jan
Stock Exchange (HERMES) Index (% ch)*	-32.8	18.2	-20.3	30.1 28/03/12**

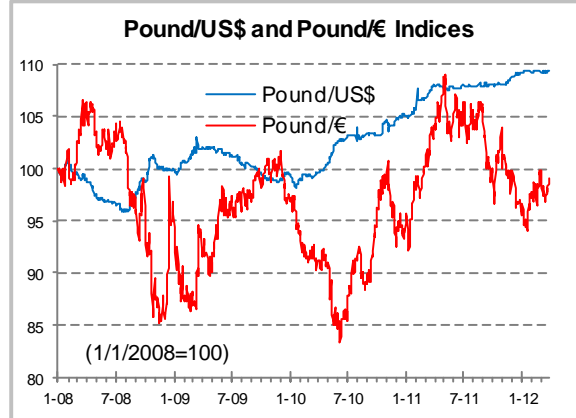
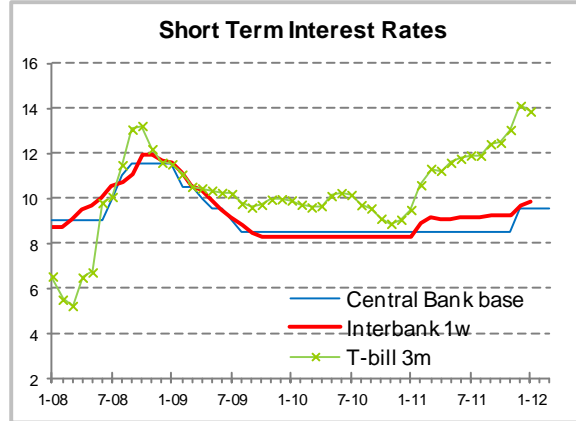
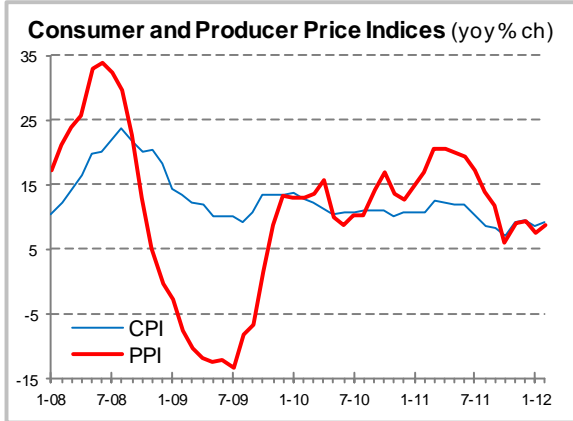
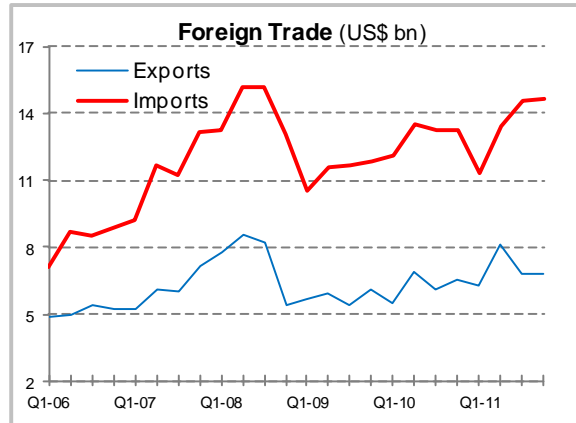
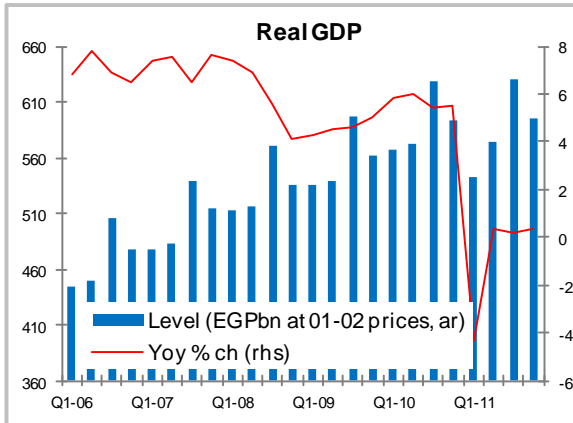
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *The Egyptian economy is hostage to its still unresolved political situation. Its main foreign currency earners (tourism, Suez Canal, and remittances) are unable to sustain GDP growth and confidence is low among investors. In addition, the country is vulnerable to the euro area slow-down.*

- The political transition period continues amid uncertainty and occasional bouts of turmoil with the Supreme Court of the Armed Forces (SCAF) overseeing the process which will culminate in the presidential election late in May. The Freedom and Justice Party won the largest number of seats in parliament in recent elections, completed in February, and remains committed to promoting greater social equality.
- The economic environment remains fragile with growth in the manufacturing and service sector particularly badly hit. Tourism is suffering from the ongoing unresolved political situation and Suez Canal revenues, which fared relatively well last year, tumbled in February (-14.4% yoy and -1.7% mom), a testimony of slowing global trade. This coupled with poor remittances is going to put increasing strain on the country's fiscal and external balances.
- Inflationary pressures remain a concern and continue to hurt households' purchasing power, particularly for food items in the context of a languishing economy, which may further dent social stability.
- The fiscal deficit shot up to an estimated 10% of GDP in fiscal year 2010/11 due to a fall in revenues and a rise in spending.
- The Egyptian pound has somewhat weakened since November last year despite Central bank interventions to counter the effects of capital flights which also resulted in a market decline in net international reserves. Low confidence in the Egyptian pound is also reflected in rising local currency denominated T-bill yields, a slowdown in the rate of growth of pound deposits at banks, and a parallel rise in dollar-denominated deposits, this signalling concerns over a potential sharp devaluation of the currency.
- Following laborious negotiations Egypt and the IMF appear to have reached an agreement for a loan late last February. The agreement, worth US\$3.2bn to be delivered in three instalments, will be signed soon.

## EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

# MOROCCO

Real Indicators*	2009	2010	2011	Latest
GDP**	4.8	3.7	4.3	4.8 Q3
Construction Production (GVA)**	3.4	2.1		7.1 Q3
Industrial Production	0.3	2.0	2.4	3.3 Q4
Consumer Prices	1.0	1.0	0.9	0.4 Feb
Producer Prices – Manufacturing	-15.1	6.4	14.8	8.6 Feb
Urban Unemployment Rate (%)	13.8	13.7	13.3	13.0 Q4
Current Account Balance (US\$bn)	-5.0	-3.9		-6.3 Q3°
as a percentage of GDP	-5.8	-4.6		-6.9
Real Effective Exchange Rate Index <sup>§</sup>	102.2	98.0	95.8	96.4 Dec

\* yoy % ch, nsa, unless otherwise indicated; \*\* sa; ° latest 12 months up to Q3 included; § 2005=100

## Financial Indicators

Short Term Interest Rate pa	3.3	3.3	3.3	3.3 Feb
Stock Exchange (MASI) Index (% ch)*	-20.4	9.2	0.4	-1.1 28/03/12**

\* Average over year; \*\* % change on 30/12/11

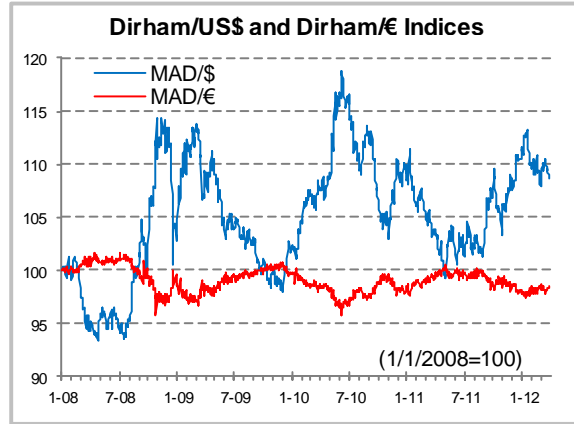
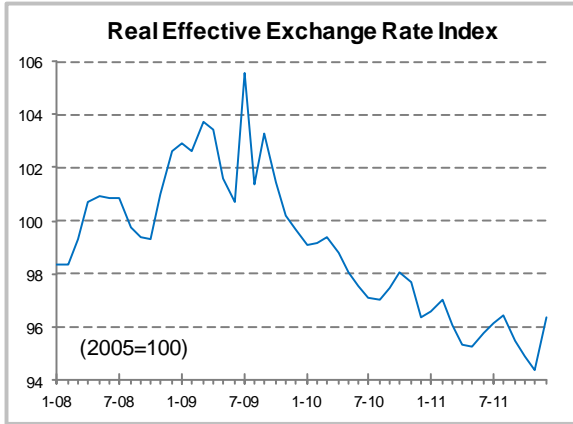
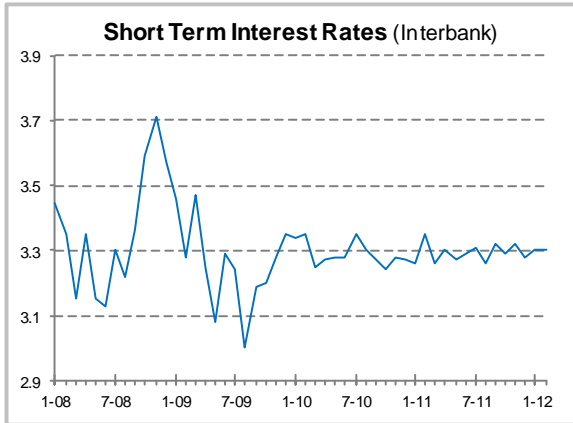
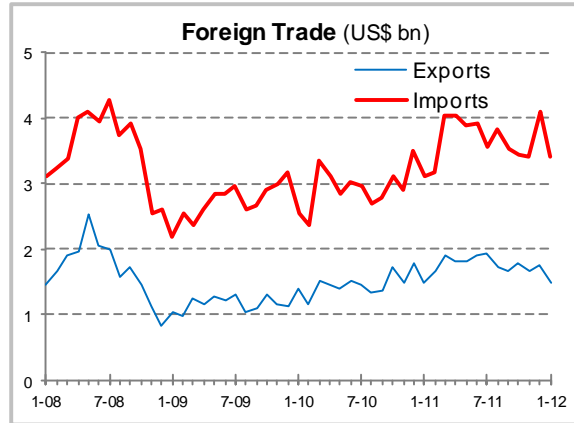
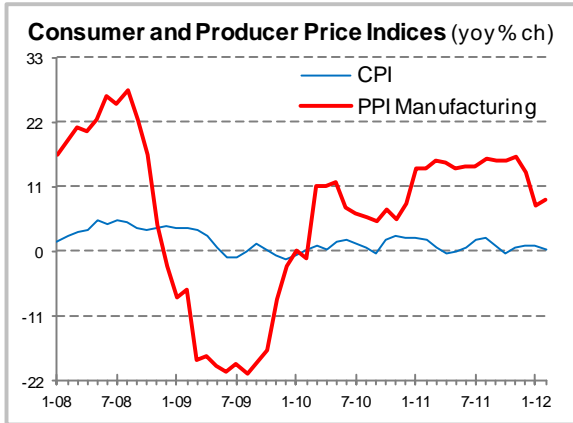
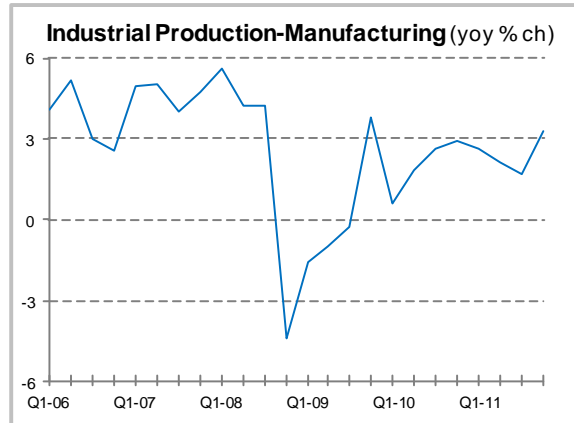
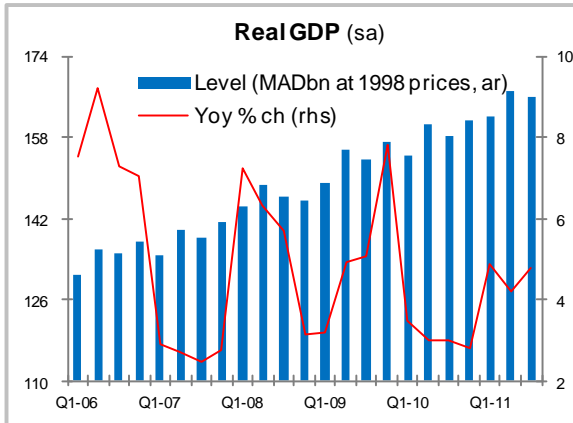
Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, IMF, daily press

**Key message:** Thanks to a good harvest and pre-emptive government policies, Morocco regained some growth momentum in the final part of 2011 and fared reasonably well through the regional unrest. However, it remains vulnerable to developments in the euro area while fiscal and external imbalances continue to pile up.

- Owing to a cereal harvest up by 13% in the 2010/11 season, GDP grew by a healthy 4.3% last year, also thanks to accelerating private consumption. Detailed data for the final quarter are still to be released. Manufacturing production recovered somewhat in Q4 11 in part thanks to improving textile and automotive output. As a matter of fact, a €1bn new Renault car-assembly plant was inaugurated in Tangier last Summer which is going to boost industrial production also in the coming months.
- The government keeps on spending heavily on investment programmes, subsidies and public-sector pay, in an effort to keep a lid on social discontent. The government agenda also focuses on reducing unemployment and improve social welfare networks. A controversial issue remains the subsidy bill which has dramatically risen recently in line with commodity prices (EIU estimates that it exceeded 6% of GDP in 2011). This is resulting in continuing, albeit so far sustainable, fiscal deficit.
- Despite signs of high inflationary pressures at the producer level, which have been however somewhat receding of late, consumer price inflation has been held in check mainly due to the government subsidy policy.
- The current account deficit continues to widen as energy prices stay high and import demand from Europe is sluggish. Strictly reflecting anaemic conditions in the euro area economies, tourism receipts and remittances remain weak, pointing to increasing weakness in the current balance.



# MOROCCO



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

## THAILAND

Real Indicators*	2009	2010	2011	Latest
GDP***	-2.3	7.8	0.1	-9.0 Q4
Industrial Production – Manufacturing	-7.3	14.5	-9.3	-3.4 Feb**
Construction Investment***	0.6	6.6	-5.3	-5.6 Q4
Consumer Prices***	-0.8	3.3	3.8	3.4 Feb
Producer Prices***	-3.4	9.5	5.5	1.8 Feb
Unemployment Rate (%)***	1.5	1.0	0.7	0.8 Jan
Current Account Balance (US\$bn)	21.9	13.2	11.9	11.9 Q4°
as a percentage of GDP	8.4	4.1	3.4	3.4
Real Effective Exchange Rate Index <sup>§</sup>	94.8	100.0	100.3	97.0 Feb

\* yoy % ch, sa, unless otherwise indicated; \*\* mom % ch; \*\*\* nsa; ° latest 12 months up to Q4 included; § 2010=100

### Financial Indicators

Short Term Interest Rate pa (o/n)	1.2	1.3	2.8	2.9 Feb
Stock Exchange Index (Bangkok) (% change)*	-15.4	45.7	21.1	17.4 28/03/12**

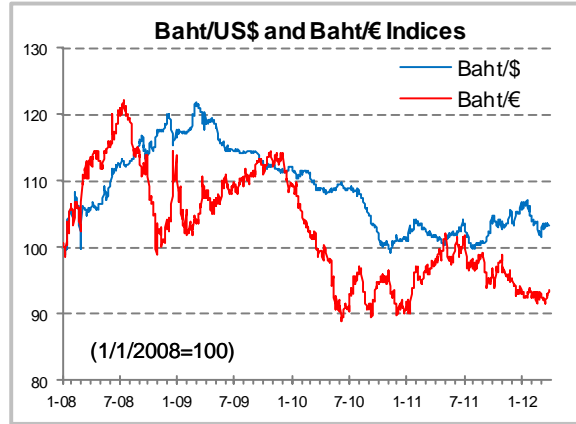
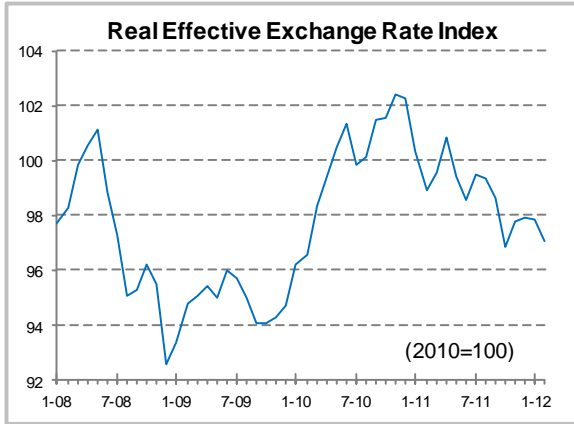
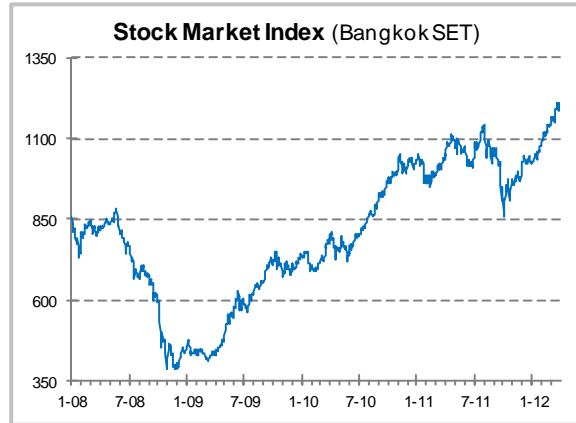
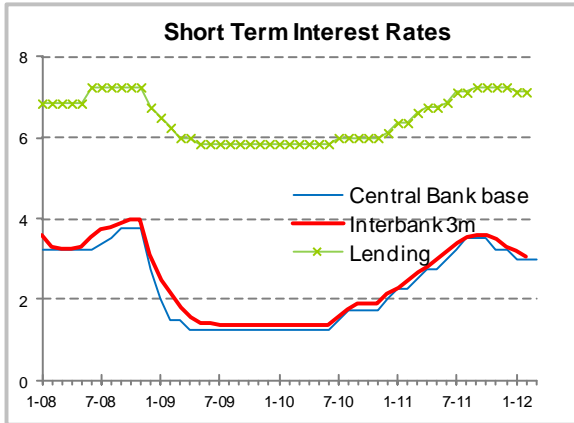
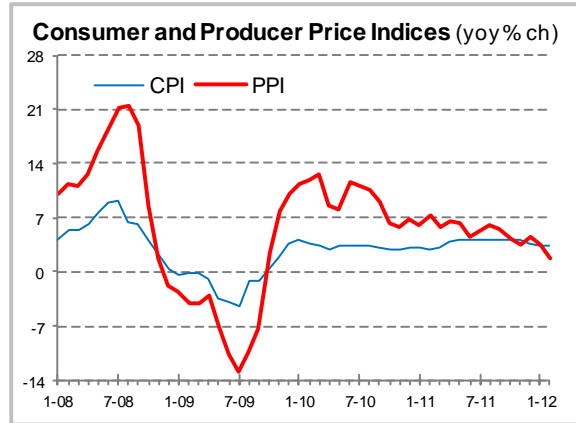
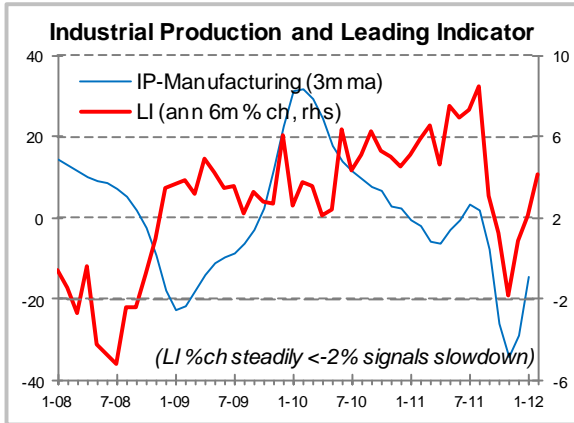
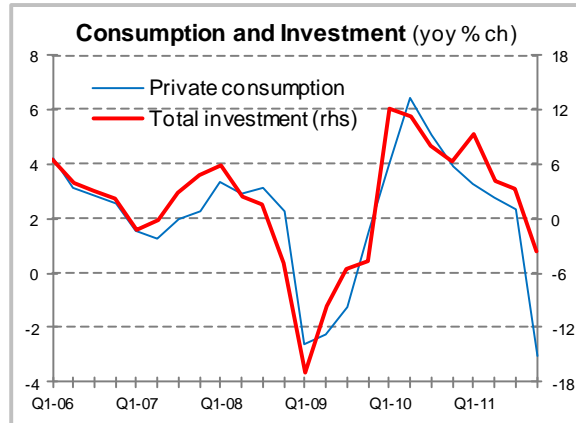
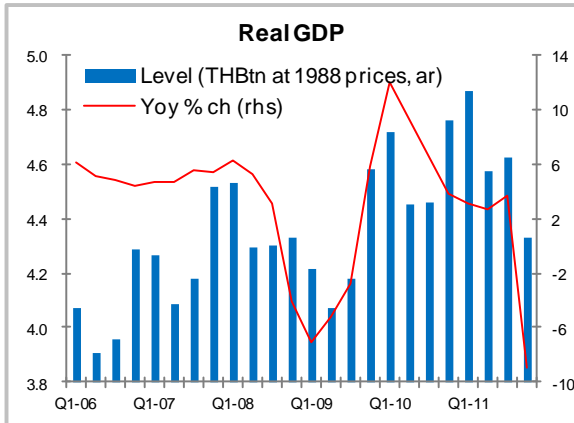
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** Thailand is still coping with post-flood issues. Pent-up domestic demand will drive the economy in the coming months while foreign demand should remain contained.

- The Q4 11 9% yoy decline in GDP was larger than expected and the deepest since the 1997/98 Asian crisis, primarily due to a domestic demand shrinkage. This deep fall was in turn the consequence of large floods in H2 11 and is likely to be followed by a strong bounce back in activity. Reconstruction activity and pent-up demand for consumer goods should drive the economy in the coming months while the external sector may act as a drag. As a matter of fact, industrial production revived in the three months to February.
- Despite the flooding, price dynamics, both at the consumer and at the producer level, has remained contained and even declined in the past few months.
- The Bank of Thailand is likely to keep monetary policy loose in H1 12 following aggressive hikes in policy rates last year and policy rate cuts in November 2011 and again in January in order to support the economy, given the worst floods in 50 years.
- Announced minimum wage increases by around 40%, which will become effective in April, should help prop up consumption but may also lead to an inflation acceleration given reconstruction demand picking up and high energy prices. This would mean that the central bank could feel less at ease in lowering policy rates further
- The trade balance swung back into surplus in January but only because export fell less than import. This reflects both weak domestic demand and slowing external demand.

# THAILAND



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

# INDIA

Real Indicators*	2009	2010	2011	Latest
GDP**	7.6	8.5	7.1	6.1 Q4
Industrial Production – Manufacturing	6.8	11.2	3.3	8.5 Jan
Construction Production (GVA)**	5.7	7.9	5.2	7.2 Q4
Consumer Prices	10.9	12.0	8.9	7.6 Feb
Wholesale Prices	2.4	9.6	9.4	7.0 Feb
Current Account Balance (US\$bn)**	-25.9	-52.2		-49.2 Q3°
as a percentage of GDP	-2.2	-3.6		-3.0
Real Effective Exchange Rate Index <sup>§</sup>	89.5	100.0	100.5	96.8 Feb

\* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; \*\* nsa; ° latest 12 months up to Q3 included; § 2010=100

## Financial Indicators

Short Term Interest Rate pa (91-day T-bills)	3.7	5.4	8.0	8.9 Feb
Policy Rate (Repo)	4.9	5.5	7.5	8.5 Mar
Stock Exchange Index (Mumbai) (% ch)*	-5.7	33.5	-2.3	10.8 28/03/12**

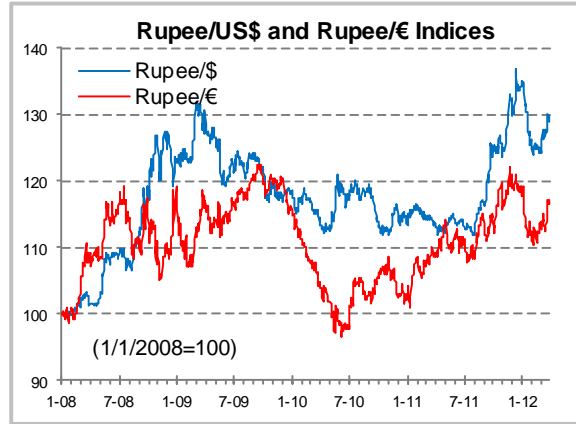
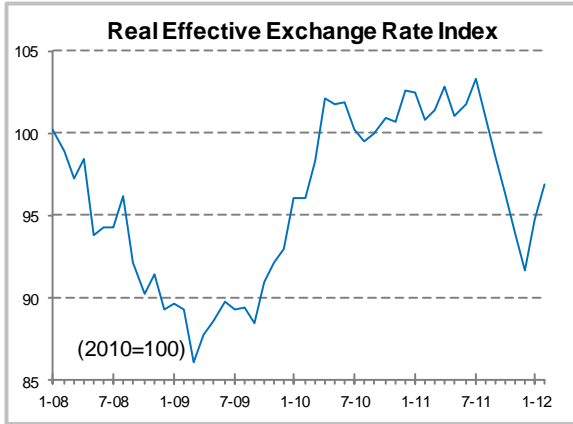
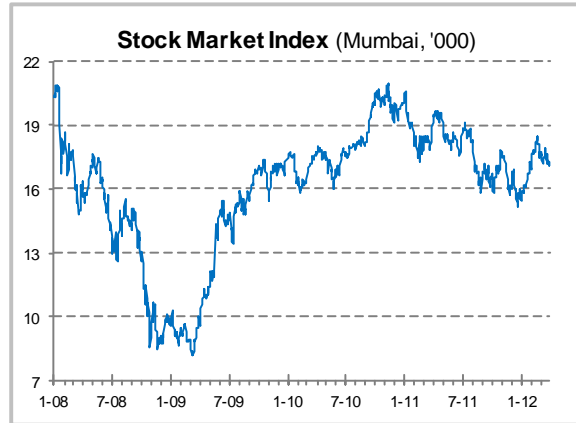
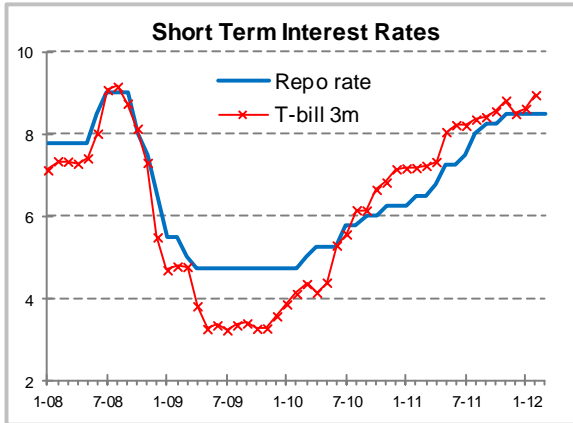
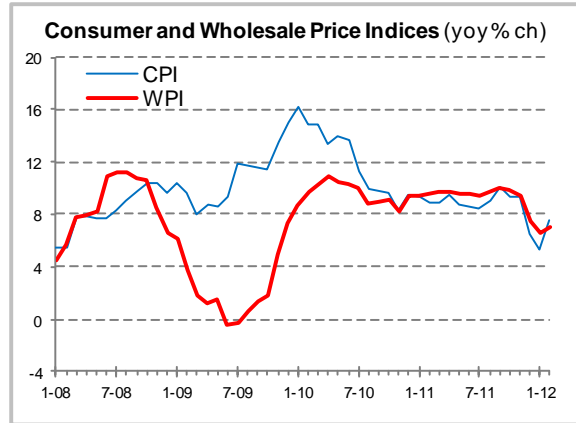
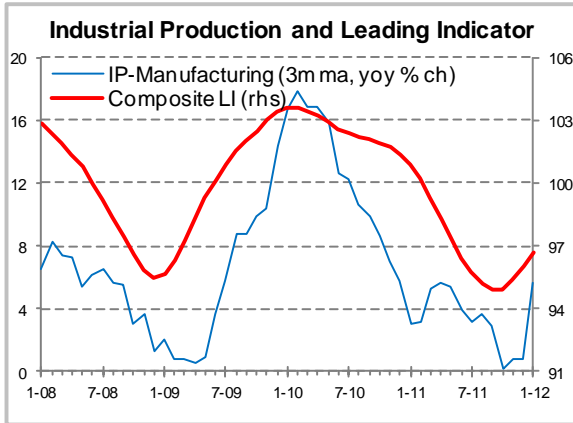
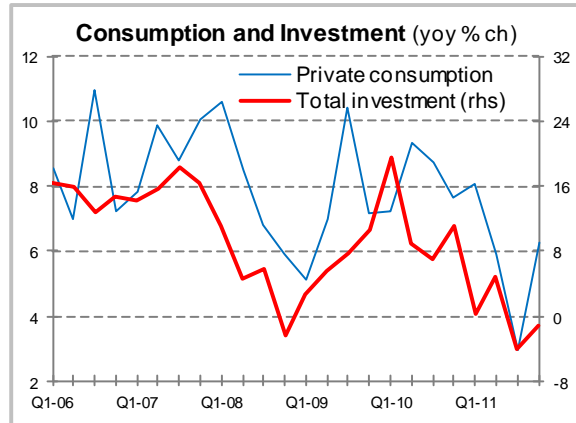
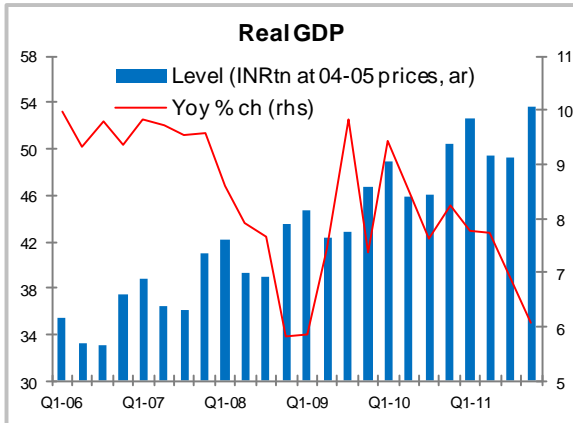
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *Latest data on production and exports bode well for an incoming recovery of the Indian economy which remains however exposed, albeit relatively less than other emerging countries, to the uncertain global environment.*

- Still contracting investment due to high interest rates as well as a slowdown in manufacturing and mining resulted in a disappointing result for Q4 11 GDP (+6.1% yoy, the lowest in two years and a half). Private consumption somewhat recovered although hampered by persistently high inflation.
- Inflation as gauged by the wholesale price index (which is in fact commonly considered more reliable than the consumer price index in tracking price dynamics in India) inched up again in February as food prices rebounded. In the coming months some upward pressure will also come from fuel prices which in the run-up of state elections have not been hiked by the government.
- This has caused the Reserve Bank to keep policy rates and reserve ratios unchanged in its latest monetary board meeting (mid-March), while earlier this year reserve ratios had been lowered in order to ease liquidity frictions.
- Industrial activity and export have picked up momentum lately but the overall economic juncture remains uncertain. The OECD leading indicator suggests that the economy is bottoming out as India is less exposed to the weaker international environment. However, the country is still suffering from tight monetary conditions and some monetary easing will be needed (and is actually in the pipeline).
- Following significantly missed budget targets in FY2011/12, the government is again focusing on fiscal consolidation, through an increase in income taxes, excise duties, and service taxes while on the spending side proposals include reducing subsidies to under 2% of GDP, coupled, however, with a substantial increase in infrastructure and capital expenditure.

# INDIA



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

# CHINA

Real Indicators*	2009	2010	2011	Latest
GDP	9.2	10.4	9.2	9.2 Q4
Industrial Production	11.6	15.3	13.7	11.4 Feb
Consumer Prices	-0.7	3.3	5.4	3.2 Feb
Producer Prices	-5.4	5.5	6.1	0.0 Feb
Trade Balance (US\$bn)	249.5	254.0		155.3 Q4°
as a percentage of GDP	5.0	4.3		2.1
Real Effective Exchange Rate Index <sup>§</sup>	100.7	100.0	100.3	107.9 Feb

\* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q4 included; § 2010=100

Financial Indicators				
1Y Lending Rate	5.3	5.4	6.4	6.6 Mar
Stock Exchange Index (Shanghai) (% ch)*	-10.4	3.0	-5.6	3.9 28/03/12**

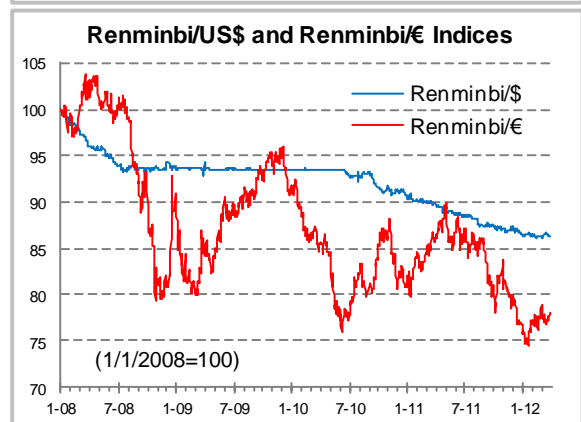
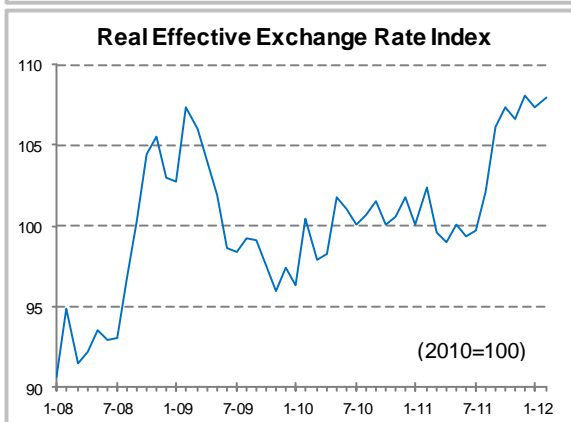
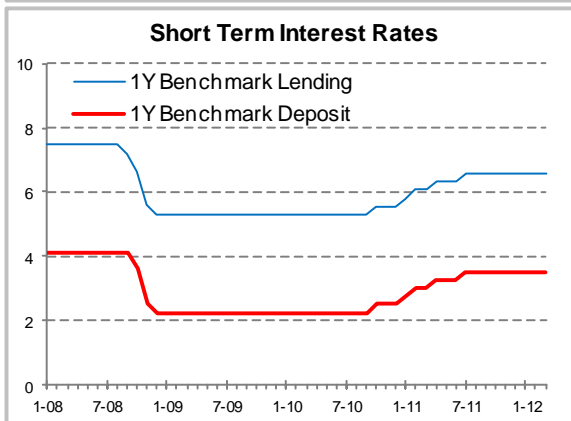
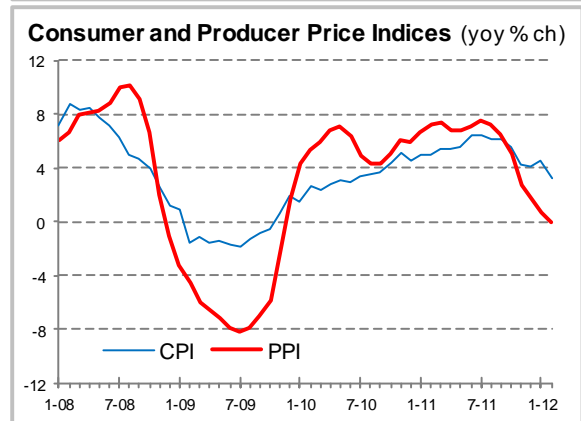
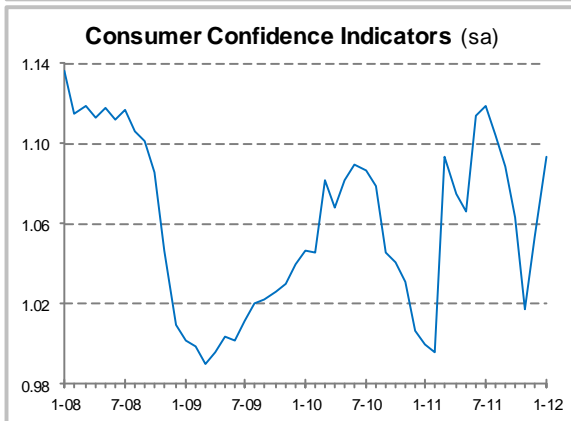
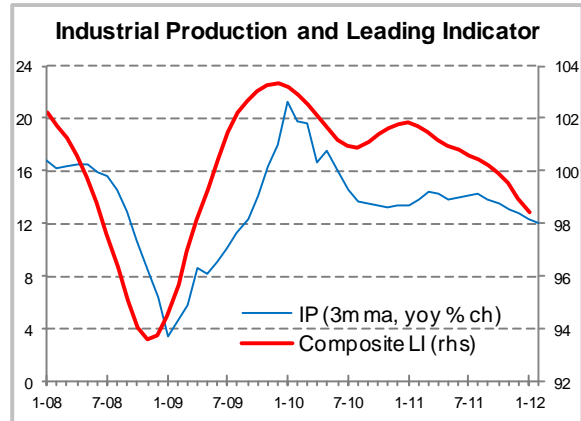
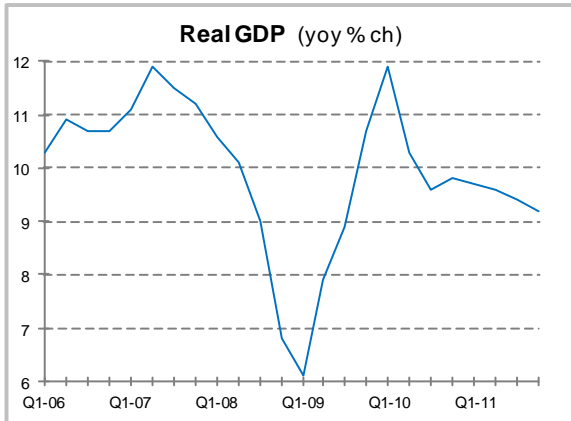
\* Average over year; \*\* % change on 30/12/11

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

**Key message:** *The economic picture is mixed as China continues to expand rapidly but is increasingly exposed to domestic imbalances and external vulnerabilities. Economic policy making has thus a very difficult task in aiming to rebalance growth while monitoring the extent of the incoming otherwise welcome slowdown.*

- GDP slowed further in Q4 11 on the back of a weakening industrial performance (particularly in the heavy industry segment) in turn reflecting slowing exports. Past year monetary tightening also resulted in relatively less healthy investment figures.
- Recent PMI data show that overall economic conditions are softening with prospects deteriorating particularly on the external front. Prime Minister Wen Jiabao announced that economic growth for this year will be targeted at 7.5% and the government is designing plans to rebalance the growth pattern away from investment and export towards domestic consumption. The risk that the economy may slow down below that target has already prompted monetary authorities to loosen their stance by lowering bank reserve requirement ratios in December 2011 and February 2012. Both fiscal and monetary policy authorities are ready to use all their tools to engineer a soft landing.
- Thanks to a sharp slowdown in food price increases consumer price inflation has moderated significantly.
- Lack of transparency persists over the health of the banking system (including the unregulated "shadow financial system") coupled with the opacity surrounding the effective size of overall fiscal debt (unofficial local government debt at end-2010 has been estimated to be around 27% of GDP with a significant share of "bad debt", which added to the "official" figure around 20% of GDP and to other less visible liabilities lifts the debt to GDP ratio considerably higher, to an estimated 70-80%) highlighting potentially serious systemic risks.

# CHINA



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



## KAZAKHSTAN

Real Indicators*	2009	2010	2011	Latest
GDP	1.2	7.0		5.9 Q3
Industrial Production	2.7	10.0		3.6 Feb
Consumer Prices	7.3	7.4	8.5	4.7 Feb
Producer Prices	-22.2	25.3	27.3	10.1 Feb
Unemployment Rate (%)	6.6	5.7	5.4	5.4 Q4
Current Account Balance (US\$bn)	-4.1	3.0		11.1 Q3°
as a percentage of GDP	-3.5	2.0		6.3
Real Effective Exchange Rate Index <sup>§</sup>	103.9	107.4	106.8	109.3 Feb

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

### Financial Indicators

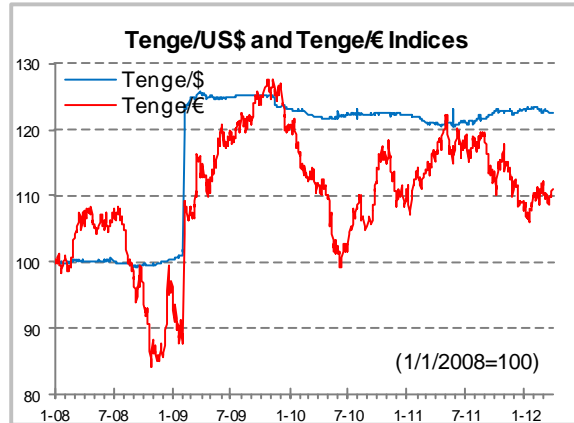
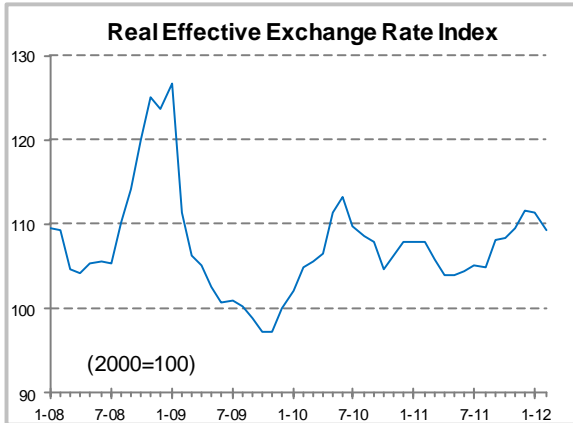
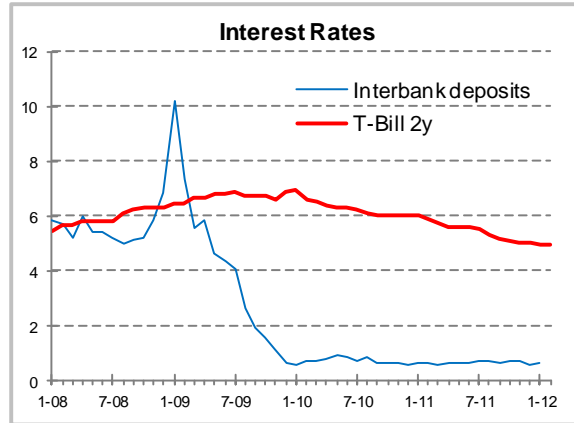
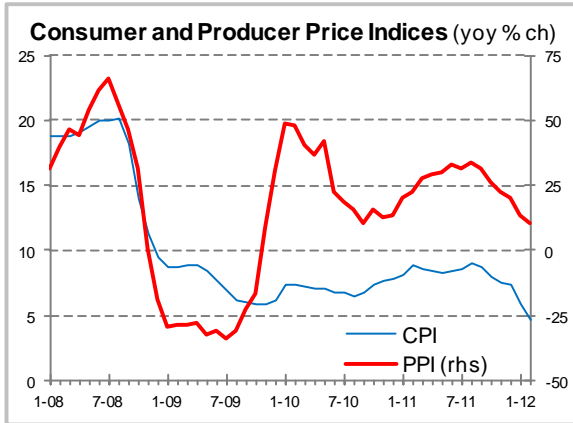
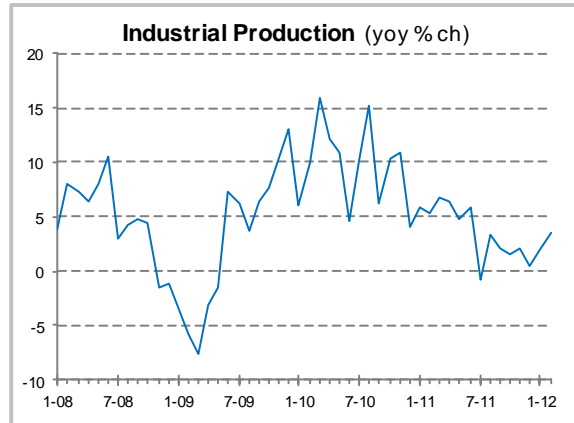
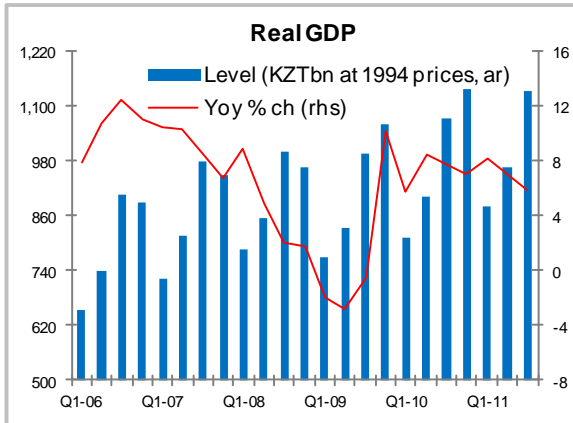
Refinancing Rate (end of period)	8.3	7.0	7.4	7.0 Mar
Short Term Interest Rate pa (<1 year)	4.6	1.6	1.3	1.5 Feb
Exchange Rate Tenge/\$	147.6	147.4	146.7	148.2 Feb

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

**Key message:** High commodity prices will continue to propel the Kazakh economy. Downward risks are, however, related to a setback in the banking recovery from its long-lasting crisis.

- According to preliminary data supportive commodity prices and a rebounding agriculture sector pushed up GDP growth to 7.5% in 2011 as a whole. While quarterly data are not yet available, this result implies an acceleration of the economy in the final months of last year.
- Quarterly data referring to Q3 11 show that growth continued to be consumption-driven while investment activity remained subdued.
- A moderate credit growth took place in 2011; however, the road to a healthy and fully recovered banking system continues to be lengthy and bumpy as witnessed by the still high level of non-performing loans. The banking sector risks, in fact, to slide into a new crisis following January's default of BTA, the third biggest Kazakh bank.
- Inflation eased significantly since peaking 9% last August also thanks to the good agricultural season which lifted pressures from food prices. This allowed the National Bank of Kazakhstan (NBK) to lower the refinancing rate by 50bp (to 7%) in mid-February. Further easing will ensue should inflation continue to decline.
- The NBK keeps intervening in the forex market to prevent a *tenge* appreciation while the current account is reaching a record high surplus.
- The Government recently downgraded to 6% the growth forecast for this year (down from 6.9%) in view of a deteriorated external environment although oil demand should remain robust. Industrial unrests due to labour disputes and technical problems have recently occurred slowing extractive activity.

# KAZAKHSTAN



Source: National Bank of Kazakhstan