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Economic and Social Studies

Economic Profile in ITC Group Countries

N. 1 March, 29th 2013

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

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

Based on information up to March, 29th 2013

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Highlights

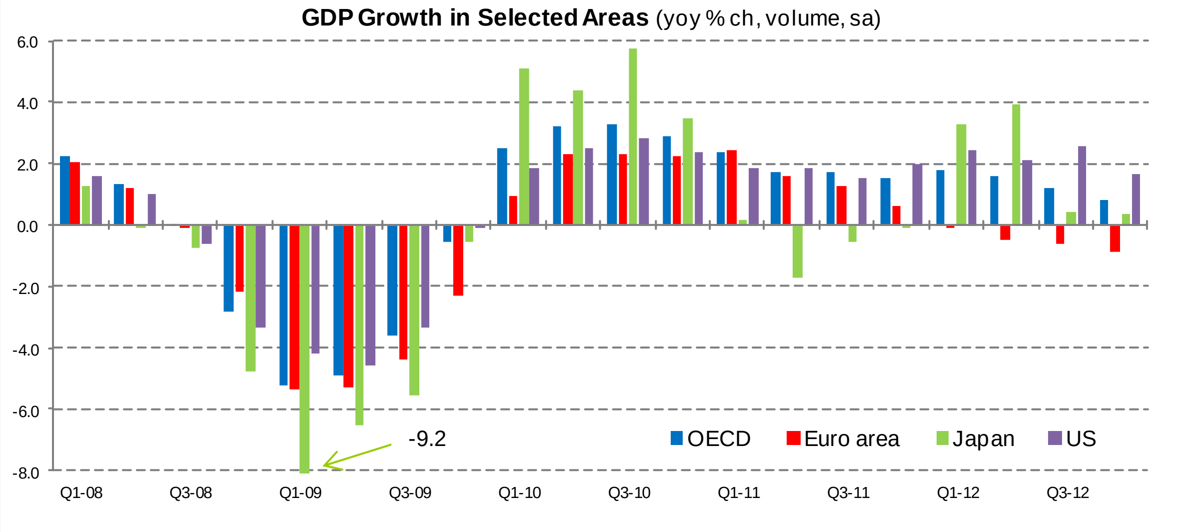
- The world economy lost momentum again in late 2012 with many advanced economies slipping back in recession/stagnation. There are now signals hinting at a recovery in activity, although growth patterns are diverging across areas.
- The US economy was adversely hit by a severe hurricane season and uncertainty related to the "fiscal cliff" issue. Nevertheless, it escaped recession and is now enjoying a relatively healthy rebound in its private sector. The main headwinds come from the fiscal tightening which is gradually unfolding. Political struggles on how to deal with the spending cuts now in force will continue but, overall, a relatively healthy economic environment will consolidate through the year.
- The euro area continues to be internally strongly heterogeneous: despite the fact that even Germany plunged in negative territory in Q4 12, it remains the strongest among the main euro economies and forward looking indicators point to a rebound in the coming months. The other main countries, are still struggling with recessionary conditions with little hope of a clear-cut recovery this year.
- The crisis exploded recently Cyprus is a reminder of the high vulnerability of the currency union. This episode stresses how problems remain deep-rooted involving the real state and soundness of the banking system in the area. In this regard, harsh fiscal austerity is only part of the solution, if not part of the problem.
- The inconclusive results of the Italian general elections are also adding further uncertainty. Financial markets have so far reacted mildly but a renewed storm may erupt soon if Italy fails to signal that a firm grip on its economy will be soon re-established.
- Growth in emerging economies is gaining momentum and the outlook is of continuing acceleration in activity. China, in particularly, appears to have avoided a hard landing last year thanks to a well-orchestrated stimulus mix and is now set to rebound, although at below trend growth rates.
- Monetary policies across the globe are generally on a very loose stance and will remain so until the world economy is back on solid ground.
- The euro has lost some ground of late on worries related to Cyprus and Italy; the yen has depreciated considerably thanks to a change in the policy mix. All in all, however, fears of an ongoing currency war have subsided.
- Overall, the world economy started 2013 on a hopeful note. Activity should gain traction in most emerging economies and also in the US and Japan while the euro area outlook remains bleak. Furthermore, the risks to this still fragile global recovery are tilted to the downside, mainly related to the euro area crisis and to the uncertainties stemming from geo-political tensions (the MENA region and Syria, to mention the most important ones)

GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)		2010	2011	2012	Latest
GDP:	OECD	3.0	1.9	1.4	0.8 Q4
	Euro Area	2.0	1.4	-0.6	-0.9 Q4
	US	2.4	1.8	2.2	1.7 Q4
	Japan	4.7	-0.6	2.0	0.4 Q4
Inflation:	US	1.6	3.2	2.1	2.0 Feb
	Euro Area	1.6	2.7	2.5	1.8 Feb
Oil Price Level	(Brent, $/barrel)	79.6	111.0	112.0	116.1 Feb
	(yoy % ch)	28.7	39.4	0.9	-2.7

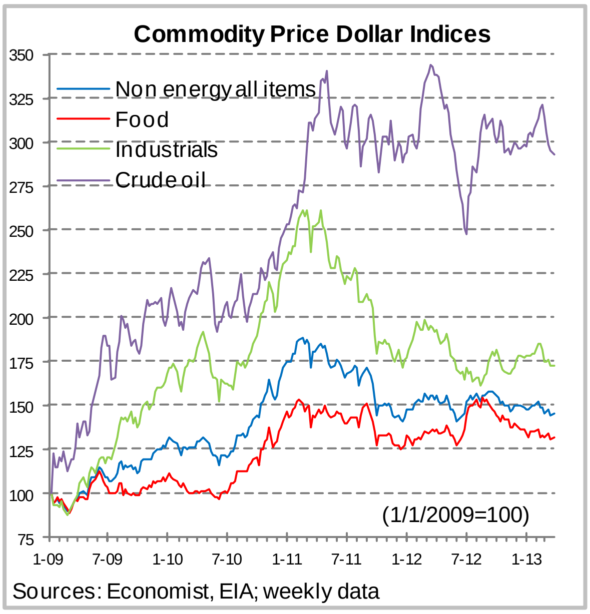
Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, US Energy Information Administration

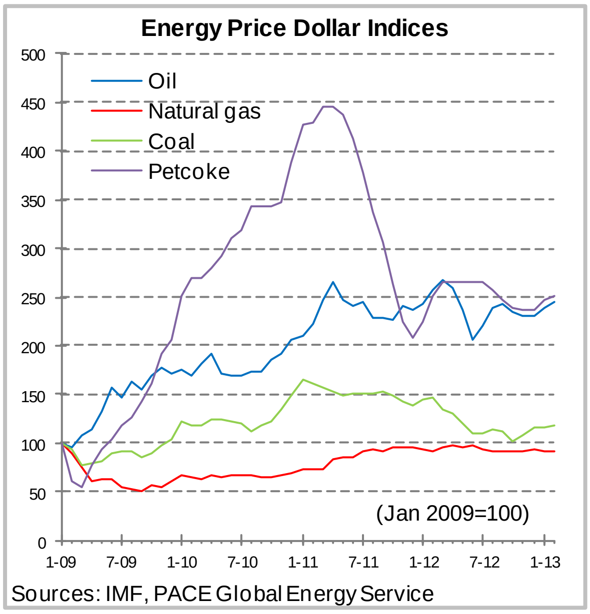
- Following a weak end of last year the world economy has started 2013 on a better note although significant differences persists among countries. The US and Japan are returning to moderate growth. Within the euro area Germany is slightly recovering and is expected to gain further momentum in the coming months while the other main economies are still struggling with recession/stagnation. In addition, tensions are high over the bail-out programme of Cyprus. Most euro-area countries are still feeling the pinch of a fiscal austerity drive which will start in the US only this year.
- The emerging area is instead generally recovering at satisfactory rates and is driving growth at global level. Overall, however, world GDP should remain below long-term trend as healthier activity in the emerging area will be partly offset by sluggish growth in the advanced economies as a whole. In addition, the recovery remains fragile and exposed to considerable downward risks, the main residing in the euro area. Also political headwinds are playing a negative role, particularly in the US, in Japan and in Italy.
- Overall, inflation does not represent an issue, except in some cases such as India and Egypt and to a smaller degree China, while employment developments continue to represent a matter of serious concern for many advanced economies.
- Industrial commodity prices have remained quite stable in recent months on average while food prices have trended downward on lower demand and improved supplies. The price of oil has recently subsided on the Cyprus crisis and worries related to the whole euro zone.

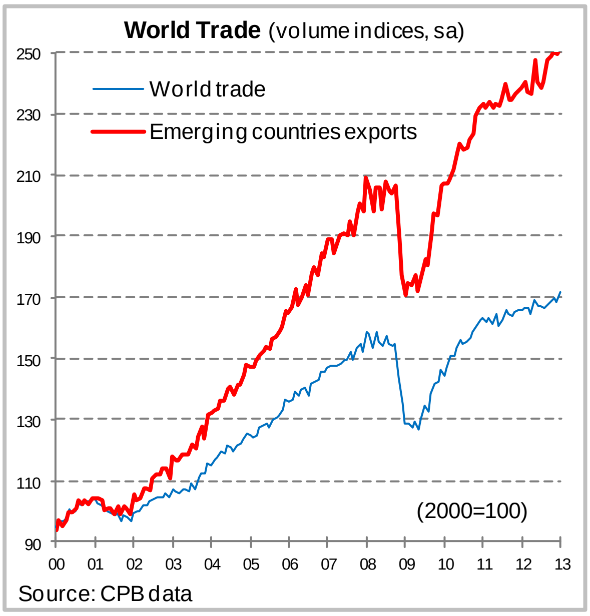


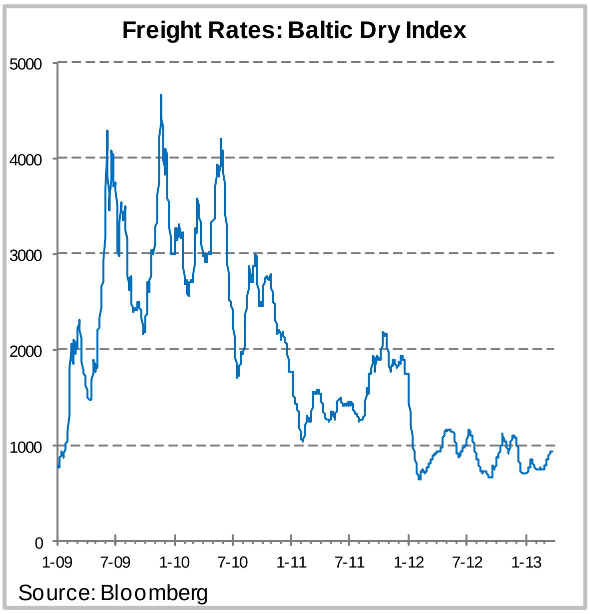
Source: OECD, Main Economic Indicators

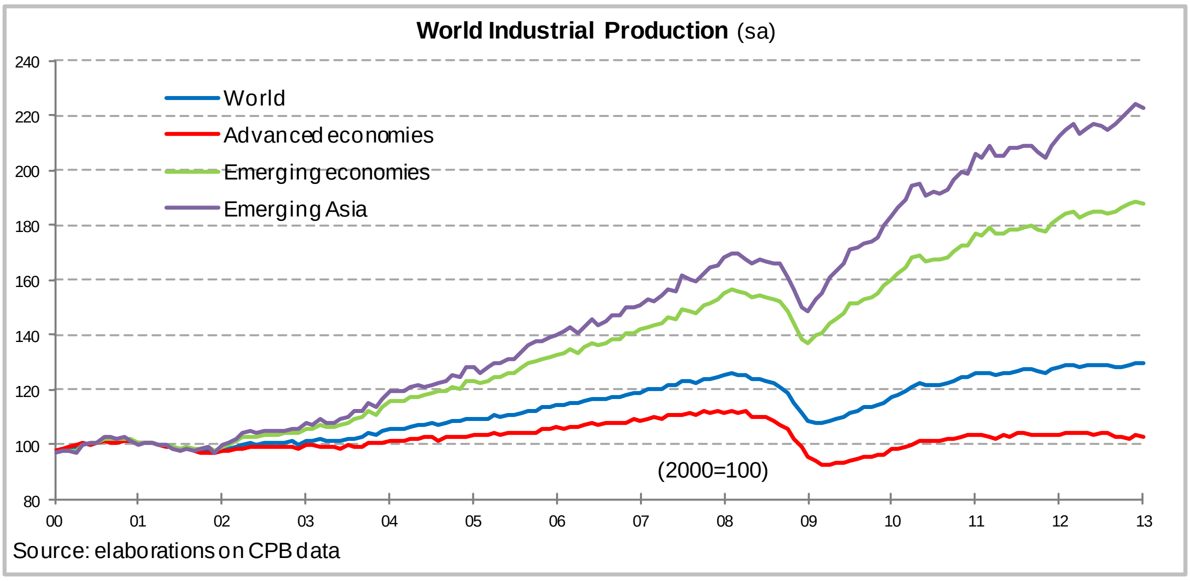
REAL INDICATORS



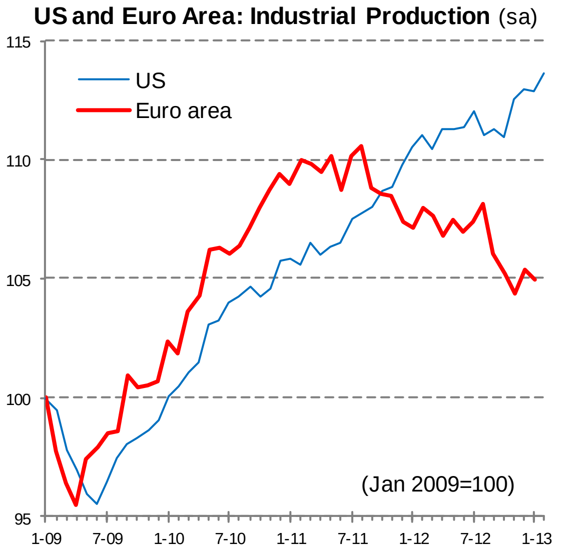




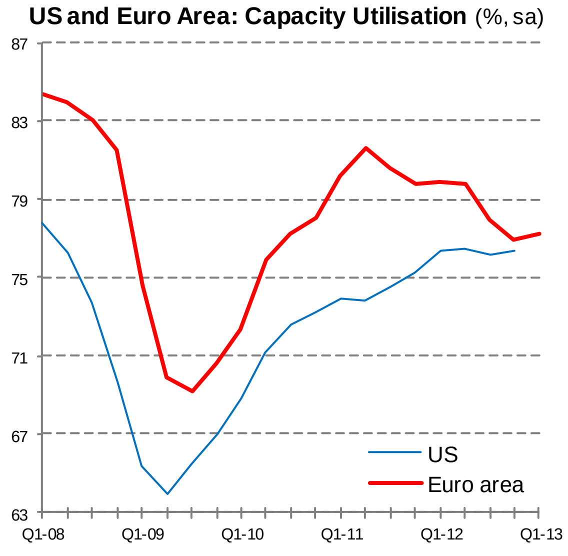




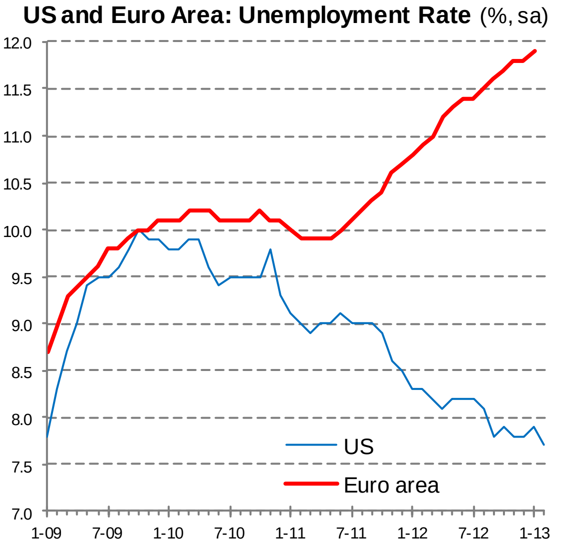
REAL INDICATORS



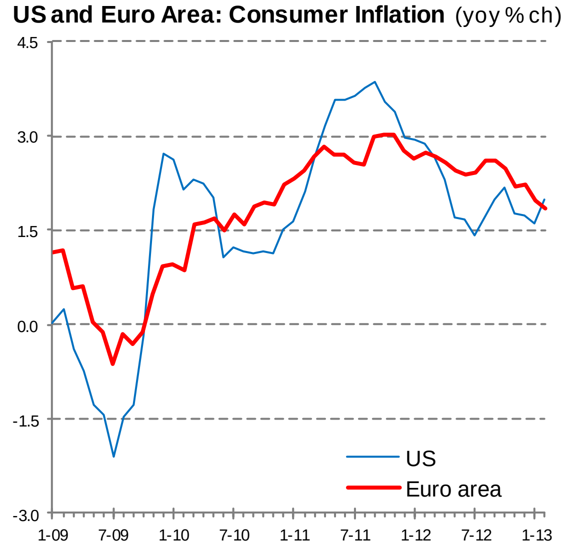
Source: OECD. Main Economic Indicators



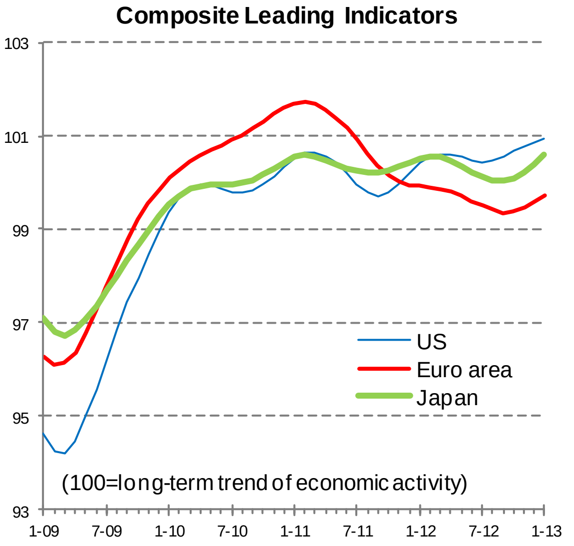
Sources: European Commission, FED



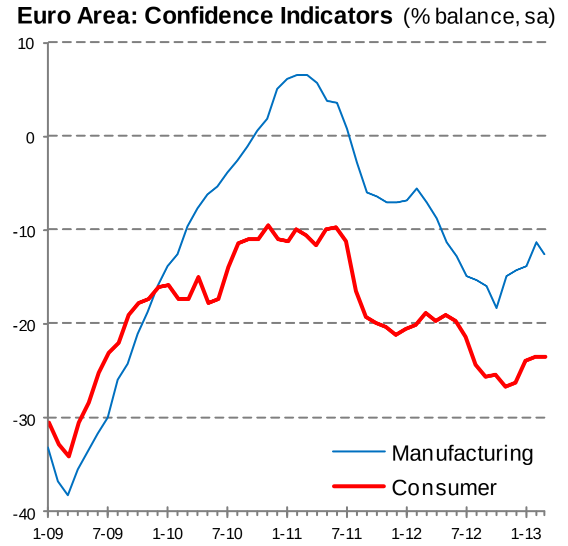
Source: OECD, Main Economic Indicators



Source: OECD, Main Economic Indicators



Source: OECD, Main Economic Indicators



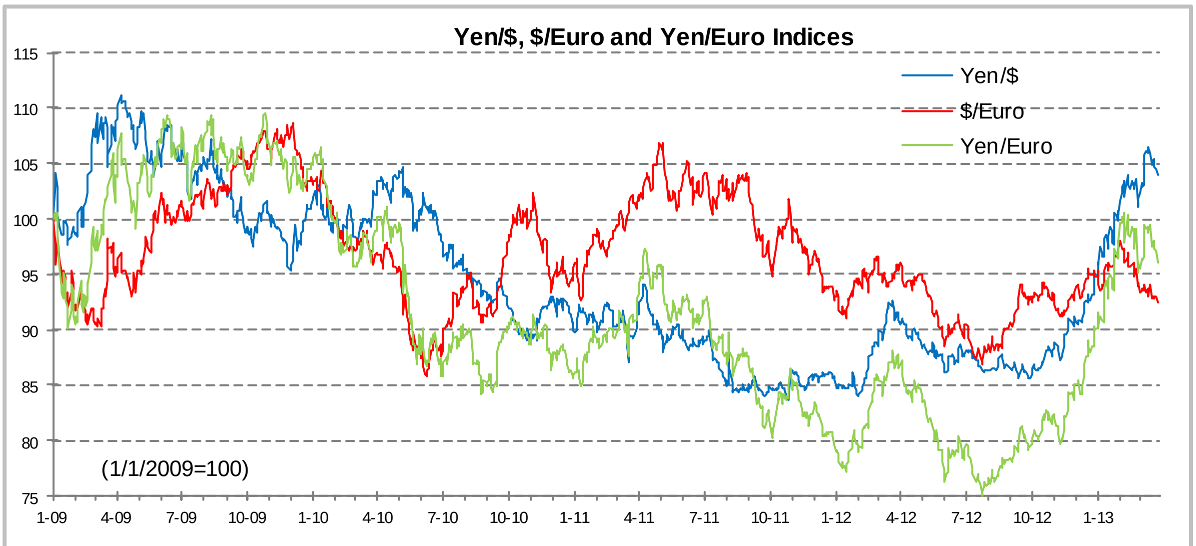
Source: European Economy, Supplement B

GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2010	2011	2012	Latest
Dollar/Euro Exchange Rate	1.326	1.392	1.285	1.322 *
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	0.75	0.75 11/07/12
Long Term Interest Rate (10y government bonds, year average):				
- US	3.22	2.78	1.80	1.98 Feb
- Euro Area	3.79	4.31	3.05	2.86 Feb

* Average from 1/1/2013 to latest available data
Sources: European Central Bank and Federal Reserve Bank

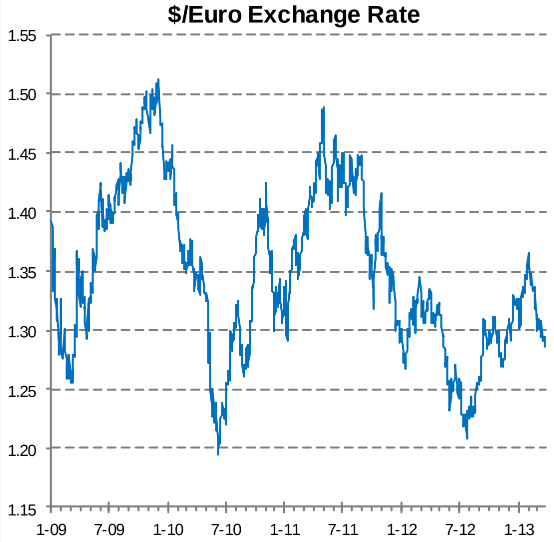
- Tensions in financial markets loosened significantly by the end of 2012/beginning of 2013. The buoyancy of stock markets around the globe has so far outpaced the recovery in real activity but some divergent patterns are emerging of late and uncertainties around the unfolding of events in the euro area, primarily the Cyprus crisis, are coming at the centre-stage.
- In the US the ongoing economic recovery and the ample liquidity available have pushed up stocks and risk appetite (reflected in higher T-bond yields). In the euro area, concerns related to the Italian political stall and the Cyprus crisis, a mix with potentially serious consequences for the euro, has sent the currency back below the 1.30 vs US$ threshold and German bond yields down again sharply (in a run for safer assets) while stock markets have so far reacted mildly.
- Japan is staging an impressive stock market performance (+40% since early November) which is the consequence of both the prospect of an unlimited quantitative easing announced by the Bank of Japan - which sparked a significant depreciation of the yen (-17% vs the US$) since last October - and of the announcement of a fiscal expansion plan.
- On balance, the world's most important central banks, together with many emerging countries' ones, continue to maintain a loose monetary stance also relying on unconventional quantitative easing. This so-called "new monetary normal" will be the norm until the global recovery is on a more solid track.



Source: Bank of Italy

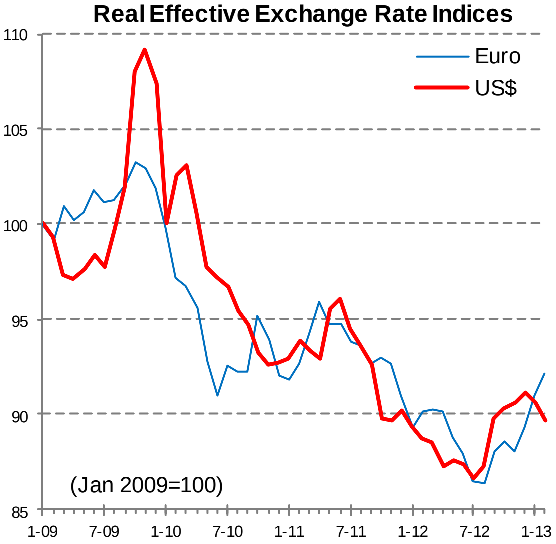
FINANCIAL INDICATORS

$/Euro Exchange Rate



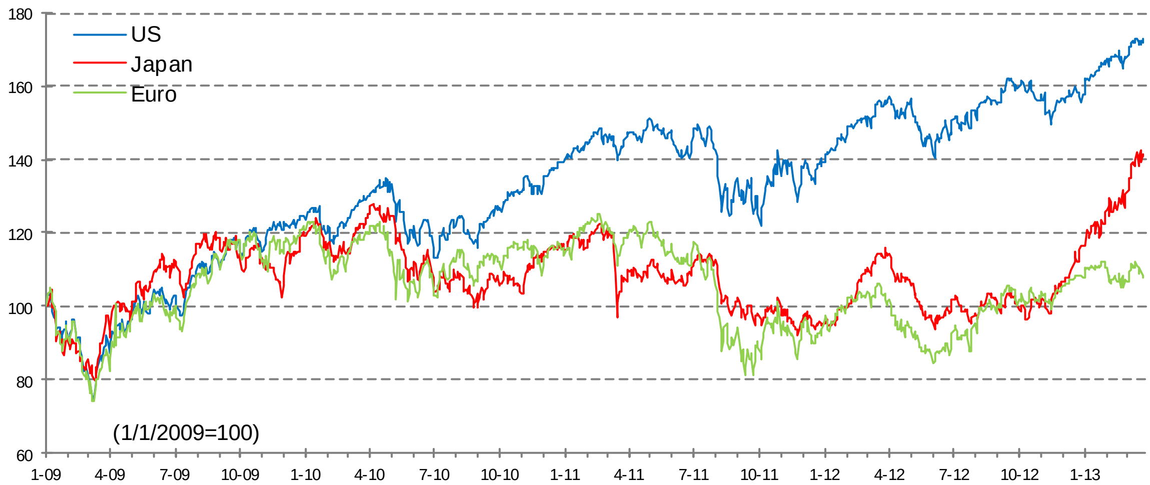
Source: Bank of Italy

Real Effective Exchange Rate Indices



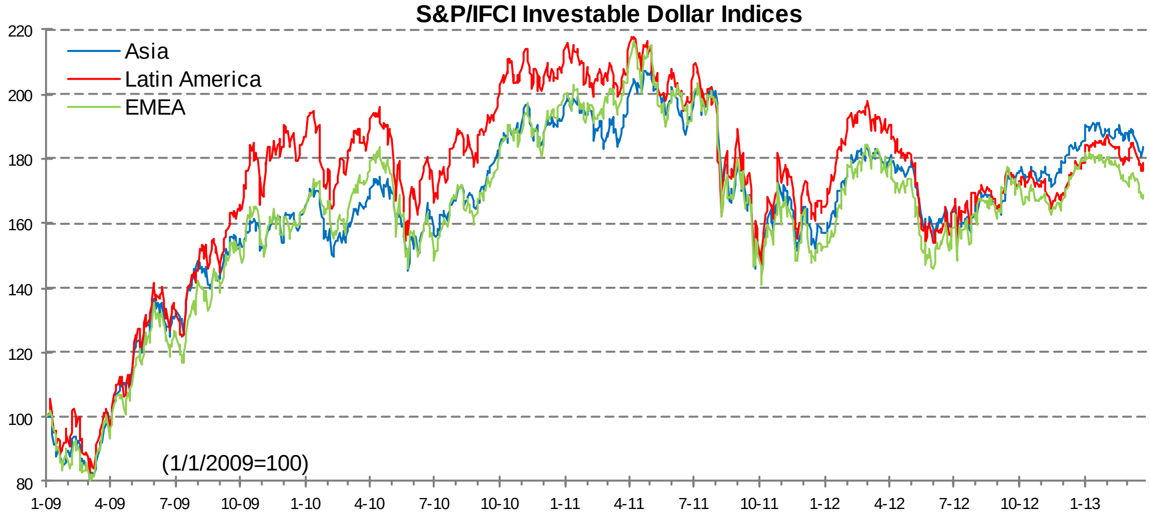
Source: European Central Bank, OECD

Stock Exchange Indices in Local Currencies



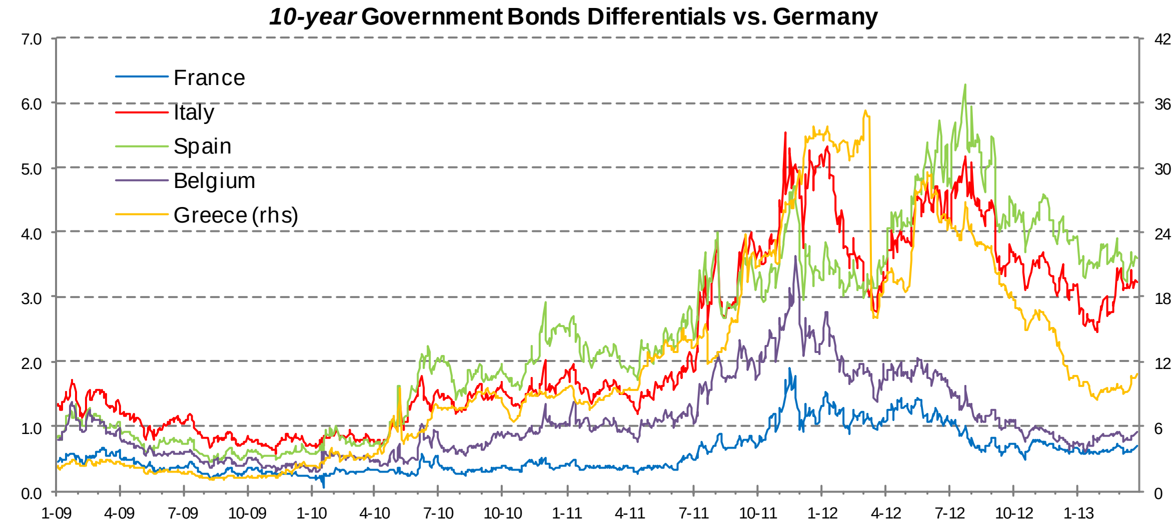
Source: Daily press

S&P/IFCI Investable Dollar Indices

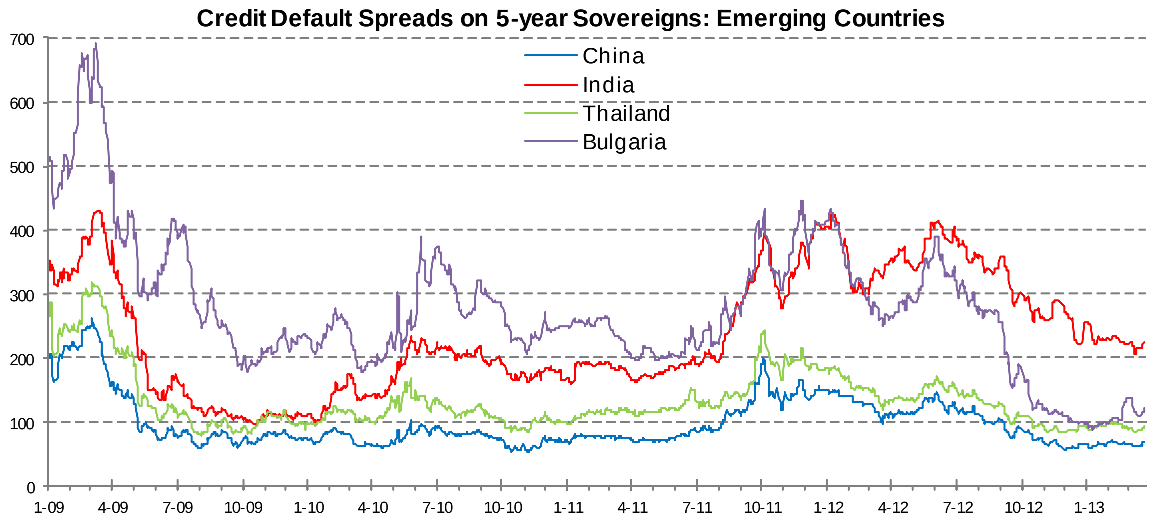


EMEA: Less Developed Europe, Middle East and Africa, includes Russia. Source: Standard & Poors

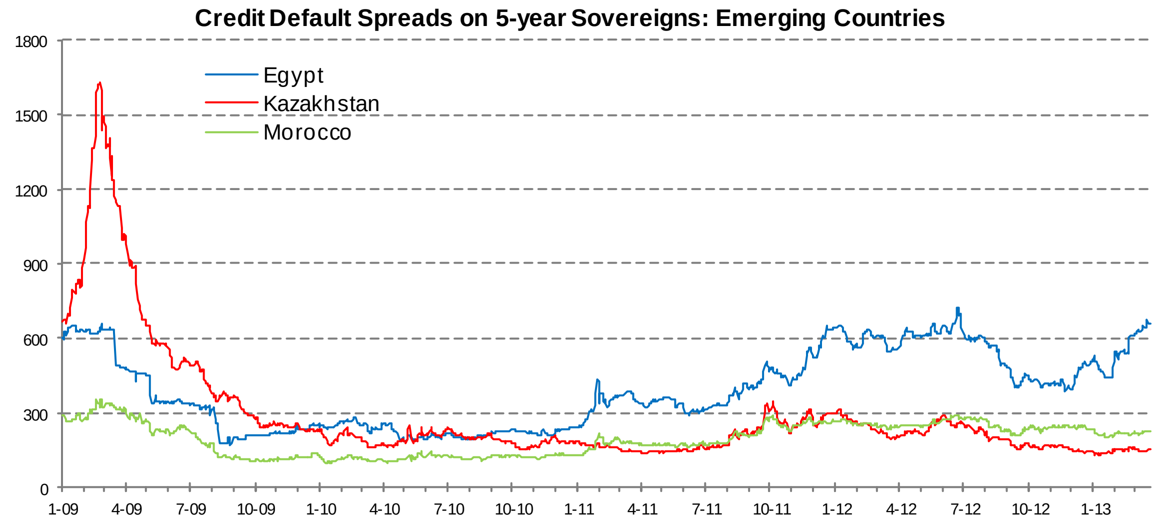
FINANCIAL INDICATORS



Sources: daily press, Bloomberg; daily data



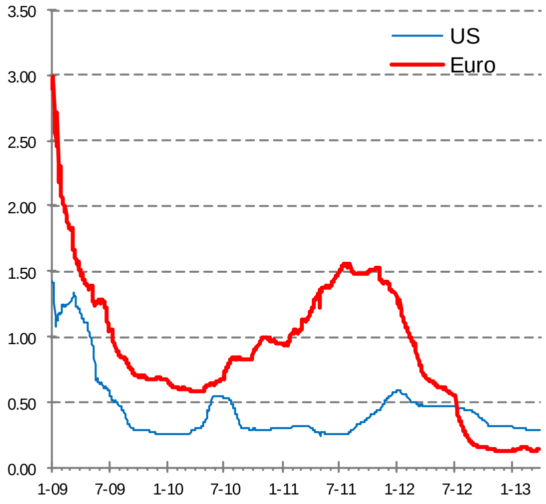
Sources: CMA DATA VISION/Bloomberg, CBIL-Commerzbank Securities; daily data



Sources: CMA DATA VISION/Bloomberg, CBIL-Commerzbank Securities; daily data

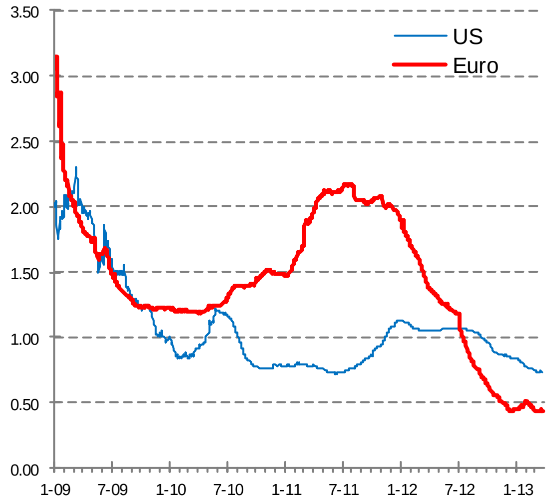
FINANCIAL INDICATORS

Dollar and Euro 3-month Libor



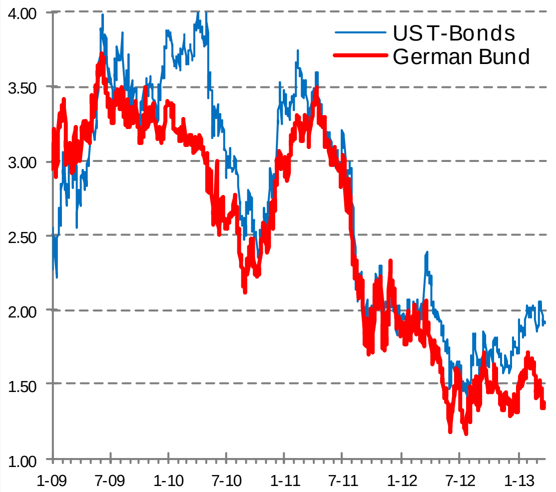
Source: Daily press

Dollar and Euro 1-year Libor



Source: Daily press

US and Euro area: Benchmark 10-year Interest Rates

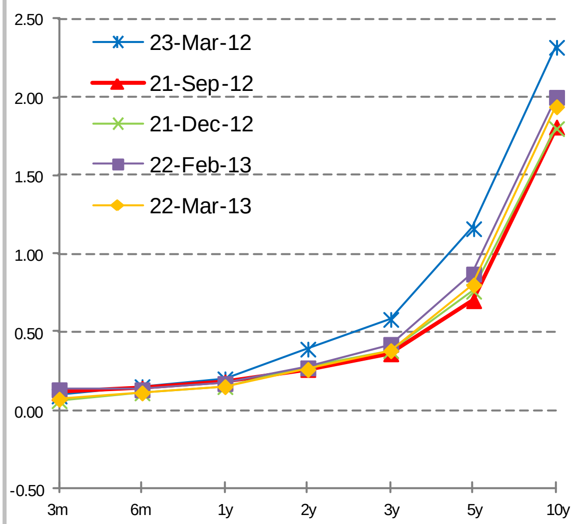


Source: Daily press

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

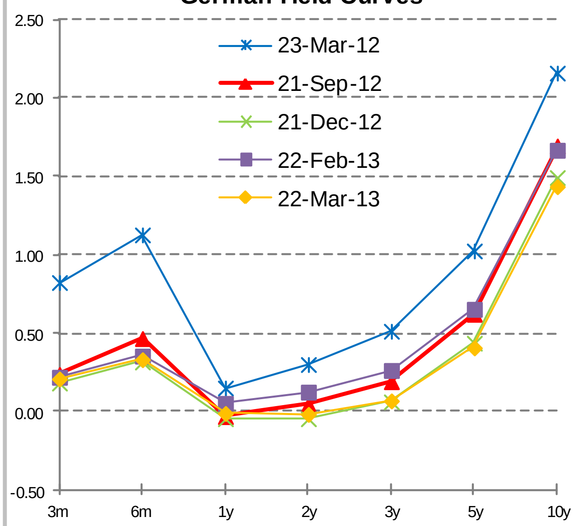
Source: Federal Reserve Bank

US Yield Curves



Average rates for week ending date shown. Source: FED

German Yield Curves



Average rates for week ending date shown. Source: DBB

UNITED STATES

Real Indicators*	2010	2011	2012	Latest
GDP	2.4	1.8	2.2	1.7 Q4
Industrial Production	5.4	4.1	3.7	0.7 Feb**
Construction Investment	-8.1	-2.5	6.5	7.0 Q4
Consumer Prices***	1.6	3.2	2.1	2.0 Feb
Producer Prices – Finished Goods***	4.2	6.0	1.9	1.7 Feb
Hourly Earnings – Manufacturing***	2.0	1.8	1.0	1.1 Feb
Standardised Unemployment Rate (%)	9.6	9.0	8.1	7.7 Feb
Current Account Balance (US$bn)	-442.0	-465.9	-475.0	-475.0 Q4°
as a percentage of GDP	-3.0	-3.1	-3.0	-3.0
Real Effective Exchange Rate Index§	100.0	95.0	97.2	96.8 Feb

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

Financial Indicators	2010	2011	2012	Latest
Short Term Interest Rate pa (3m CD)	0.31	0.30	0.28	0.22 Feb
Long Term Interest Rate pa (benchmark 10y)	3.22	2.78	1.80	1.98 Feb
Stock Exchange (S&P 500) Index (% ch)*	20.3	11.3	8.7	9.6 26/03/13**

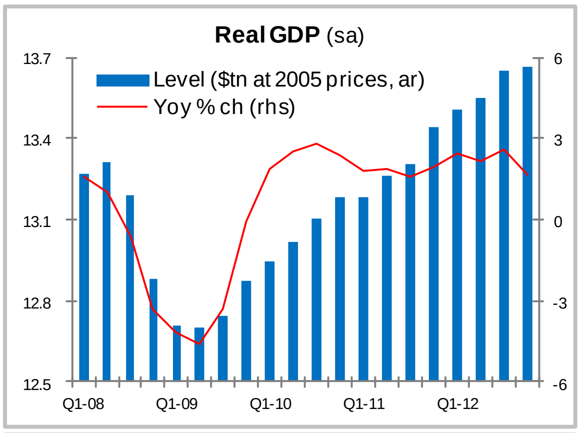
* Average over year; ** % change on 31/12/12

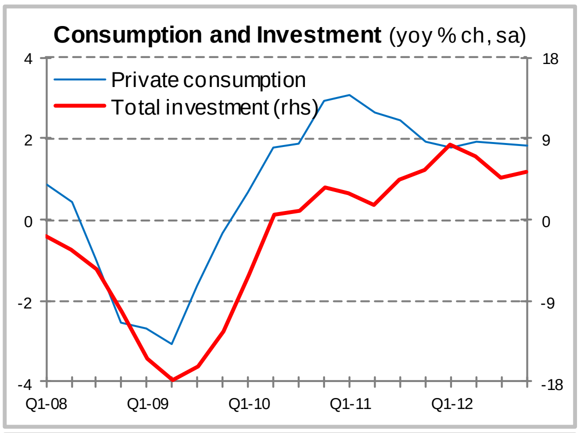
Sources: OECD, FED, Bureau of Economic Analysis, Bank of International Settlements (BIS), daily press

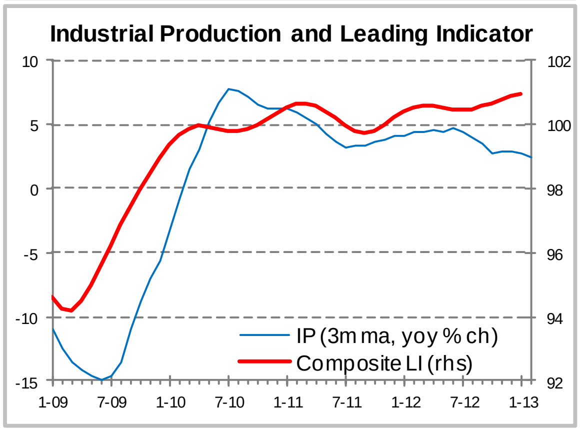
Key message*: The private sector's led recovery is now threatened by the unfolding of a severe fiscal tightening. Nevertheless, as for now the rebound appears relatively robust and such to withstand the adverse impact of austerity.*

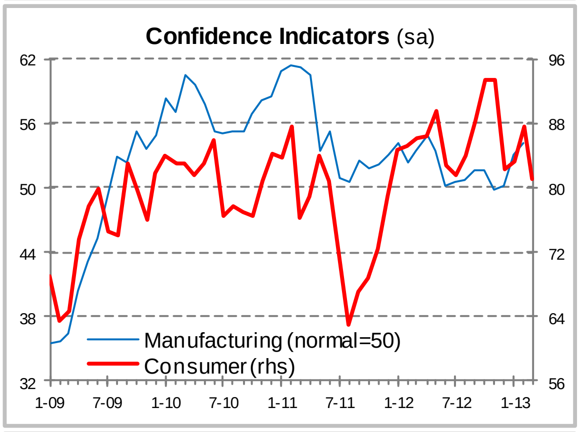
- The US economy slowed sensibly in Q4 12 managing to grow only marginally (0.1% qoq). In fact, this result was even better than expected given widespread concerns related to the "fiscal cliff" issue (automatic tax increases and spending cuts by the start of 2013) and following devastations caused by a particularly heavy hurricane season.
- Private demand was relatively healthy with investment accelerating to 3.3% qoq from the previous 0.2%. The main drags on growth were a large inventory drawdown and reduced government spending.
- News from the private sector continue to be relatively favourable: confidence has recovered particularly among businessmen, retail sales are on the rise, employment growth is proceeding, the housing market is recovering and forward indicators for manufacturing are favourable.
- The strengthening private sector is helping the US to withstand the ongoing fiscal tightening which is, however, expected to take its toll in the coming quarters. A deal to avoid the fiscal cliff was reached at the start of the year resulting in the American Taxpayer Relief Act which raises taxes by almost $200bn in 2013. Later on, in March, in the absence of Congressional agreement, across-the-board spending cuts totalling $85bn in fiscal year 2013 (the so-called "sequester") entered into force.
- Finally, the Congress managed to strike a deal in late March to avert government shutdown on March, 27th as a bill to fund its activity until the end of the current fiscal year (September 2013) was approved. This bill does not address the sequester issue but allows more leeway to the Congress in determining how the cuts are distributed.
- Overall, it has been estimated that federal fiscal policy will shave off GDP growth by around 1.5%. The severe tightening notwithstanding there are indications that the undergoing recovery in the private sector is robust enough not to be derailed.

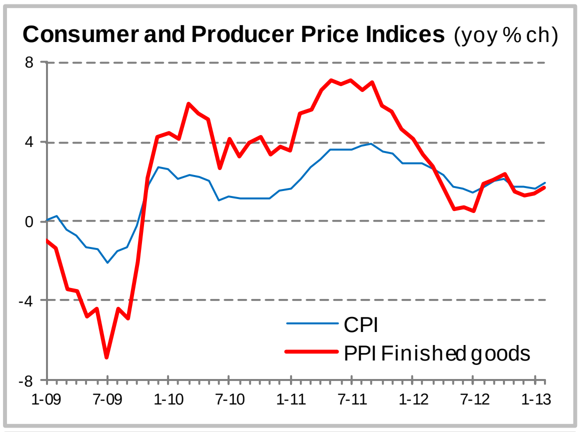
UNITED STATES

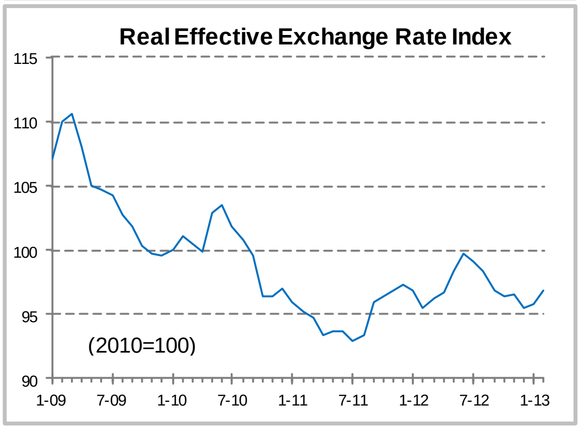


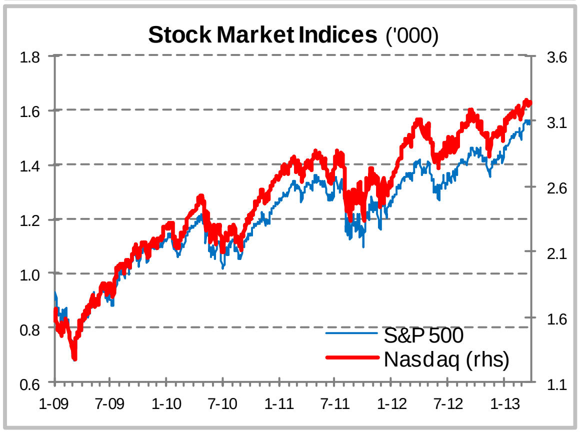


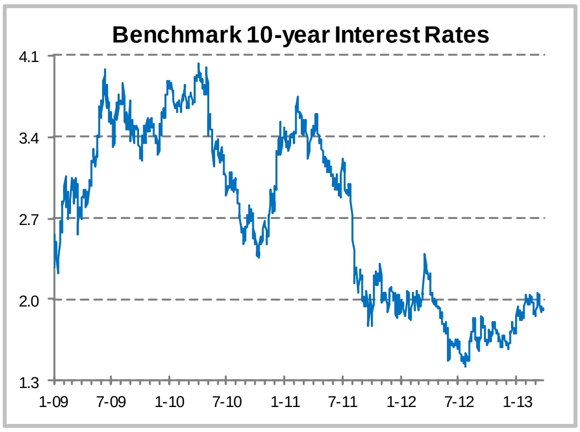












Sources: OECD, Bureau of Economic Analysis, Bureau of Labor Statistics, BIS, daily press

CANADA

Real Indicators*	2010	2011	2012	Latest
GDP	3.2	2.6	1.8	1.1 Q4
Industrial Production	4.9	3.7	1.3	-1.1 Dec**
Construction Investment	11.3	3.3	4.1	4.2 Q4
Consumer Prices***	1.8	2.9	1.5	1.2 Feb
Producer Prices - Manufacturing***	1.0	4.6	0.6	1.0 Feb
Hourly Earnings - Manufacturing***	4.8	3.2	2.9	2.2 Jan
Standardised Unemployment Rate (%)	8.0	7.5	7.2	7.0 Feb
Current Account Balance (Can$bn)	-50.9	--52.3	-66.9	-66.9 Q4°
as a percentage of GDP	-3.1	-3.0	-3.7	-3.7
Real Effective Exchange Rate Index§	100.0	101.6	100.9	98.6 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)	0.60	1.00	1.00	1.01 Feb
Long term interest rate pa (benchmark 10y)	3.24	2.79	1.87	1.91 Jan
Stock Exchange (TSE) Index (% ch)*	18.7	7.4	-6.7	2.2 26/03/13**

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

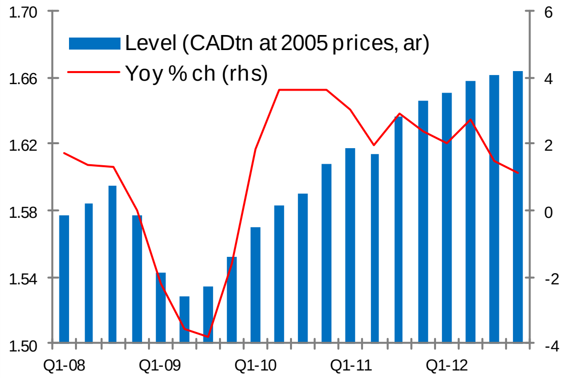
Sources: OECD, Statistics Canada, BIS, daily press

***Key message**: Although Canada is performing relatively well compared to other advanced economies, subdued growth South of the border and a cooling housing market will weigh on the economy in the coming months.*

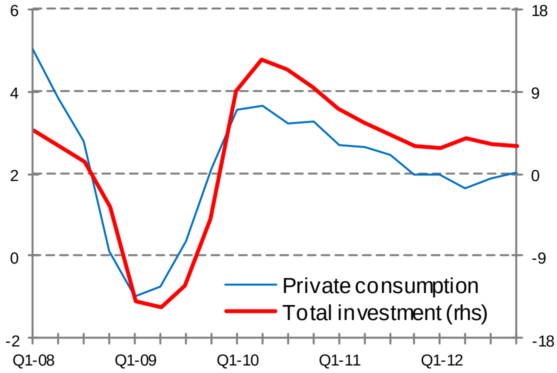
- The Canadian economy ended the year on a soft note as GDP expanded at a meagre 0.2% qoq (marginally less than previous quarter) mainly due to a hefty drop in inventories while domestic demand strengthened somewhat. The modest growth pace, however, offers little prospect of sustained downward pressure on the unemployment rate.
- Global commodity demand remains relatively strong, supporting the loonie and improving Canadian terms of trade. Lower import costs, favourable mortgage interest rates, a fall in domestic gas prices, and moderating gasoline prices all helped to lower the rate of price inflation as well. In fact, inflation has been subdued in the past several months, also reflecting the prolonged period of the economy operating below full capacity.
- In its January monetary policy report, the Bank of Canada (BoC) maintained official interest rates at 1%, given the Canadian economy's softer performance in the second half of 2012. The BoC also continues to be concerned about the risks to the economy from high household indebtedness levels, even though growth in indebtedness has slowed markedly in recent quarters.
- Despite some hints of stabilisation coming from existing home sales for January, housing activity remains on a downward trend, following the sharp decline in the second half of last year triggered by tighter mortgage insurance rules introduced by the federal government on July 9th.

CANADA

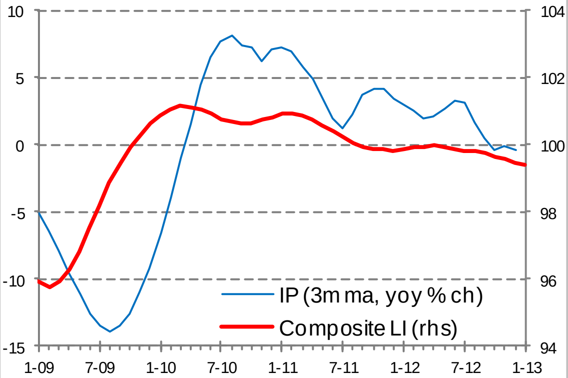
Real GDP (sa)



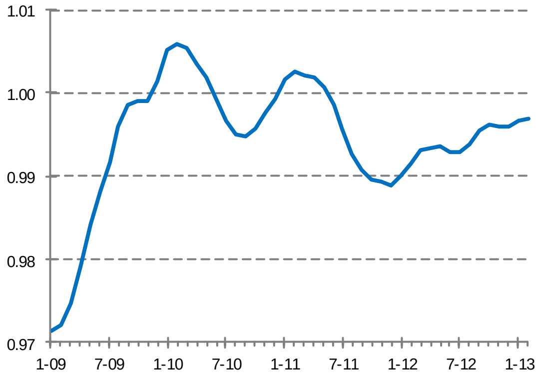
Consumption and Investment (yoy % ch, sa)



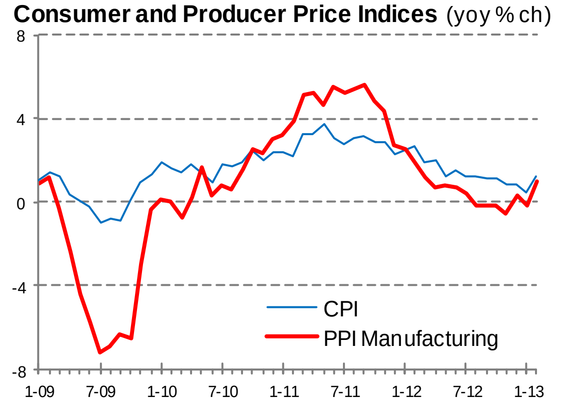
Industrial Production and Leading Indicator



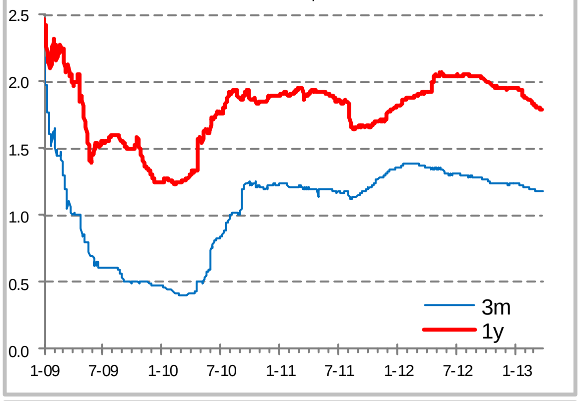
Confidence Indicator (sa)



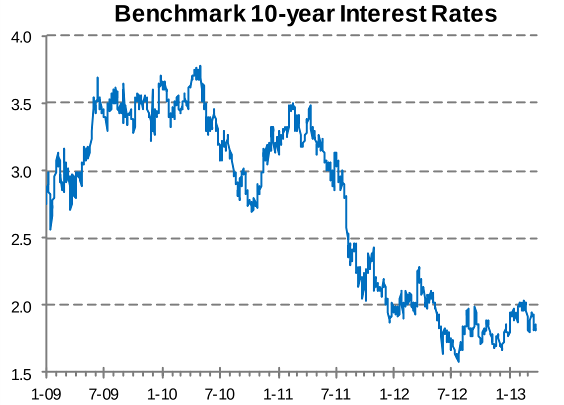
Consumer and Producer Price Indices (yoy % ch)



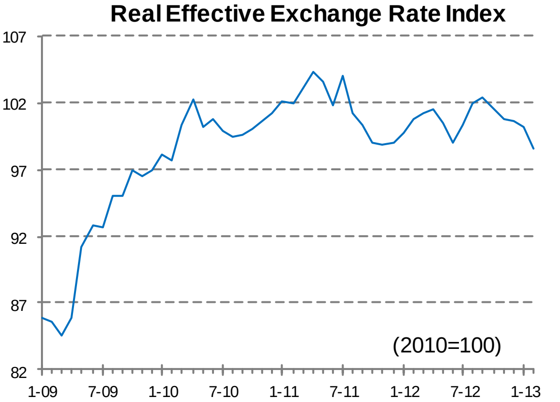
Canadian $ Libor



Benchmark 10-year Interest Rates



Real Effective Exchange Rate Index



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2010	2011	2012	Latest
GDP (wda)	1.7	1.7	0.0	-0.3 Q4
Industrial Production	4.9	2.0	-2.7	-1.2 Jan**
Construction Investment	-3.4	2.0	0.9	-0.8 Q4
Consumer Prices - Harmonised Index***	1.7	2.3	2.2	1.2 Feb
Producer Prices - Manufactured Goods***	3.3	5.9	2.2	0.9 Feb
Hourly Earnings - Manufacturing (*ouvriers*)***	1.8	2.4	2.6	2.5 Q4
Standardised Unemployment Rate (%)	9.7	9.6	10.3	10.6 Jan
Current Account Balance (€bn)	-30.2	-38.9	-48.9	-48.9 Q4°
as a percentage of GDP	-1.6	-1.9	-2.4	-2.4
Real Effective Exchange Rate Index§	100.0	99.2	96.1	96.9 Feb

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

Financial Indicators	2010	2011	2012	Latest
Short Term Interest Rate pa (Euribor 3m)	0.81	1.39	0.57	0.22 Feb
Long Term Interest Rate pa (benchmark 10y)	3.12	3.32	2.54	2.24 Feb
Stock Exchange (CAC) Index (% ch)*	12.1	-4.3	-6.6	3.0 26/03/13**

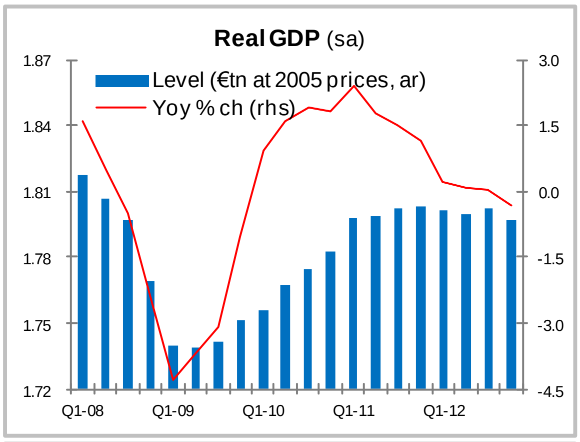
*Average over year; ** % change on 31/12/12

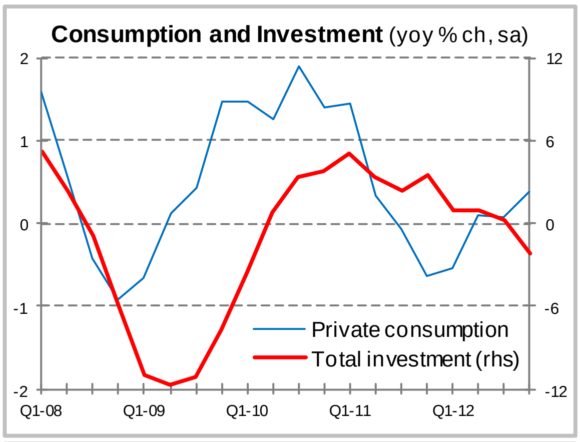
Sources: OECD, Banque de France, INSEE, BIS, daily press

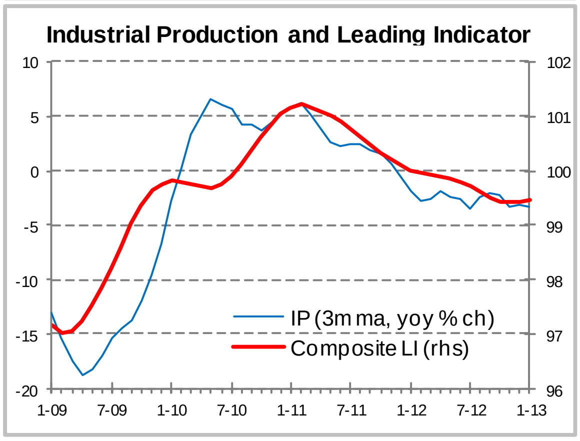
Key message*: The French economy entered 2013 on a very weak pace and is facing rather gloomy conditions. A convincing turnaround is not at sight this year.*

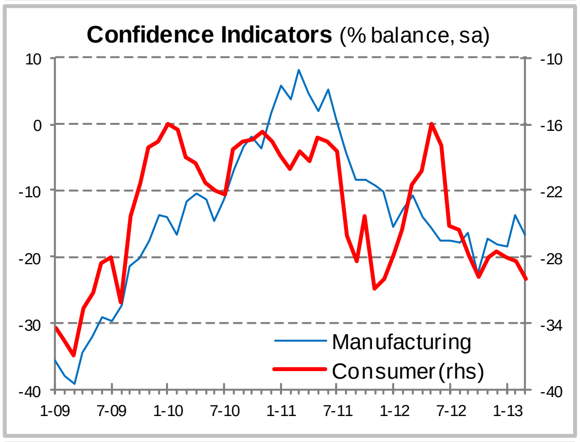
- The French economy fell back in negative territory in Q4 12 (-0.3% qoq). The main drag on growth was a large inventory drawdown. The weak economic environment took a toll also on households' consumption which retreated marginally together with households purchasing power. The investment drop deepened while a positive contribution came from net exports but only because the plunge in import was larger than that in export.
- Economic conditions remain gloomy: business confidence is failing to rebound while industrial activity keeps trending downwards, households' sentiment is falling on the back of fiscal austerity and high and rising unemployment, the export performance is set to be muted after a sharp contraction in January. The Markit PMI index was at a four-year low in March.
- The fiscal stance has been tightened in 2013 in an attempt to cut the fiscal deficit from a projected 4.5% of GDP in 2012 to 3.0%. The austerity drive relies on higher taxes on the wealthy and large corporations and avoids painful spending cuts. Early in March the government has announced that the deficit target is unlikely to be achieved as growth is set to be lower than forecast when the 2013 Budget was drawn up and pleaded the EU commission for more time, which, in current circumstances, is likely to be given.

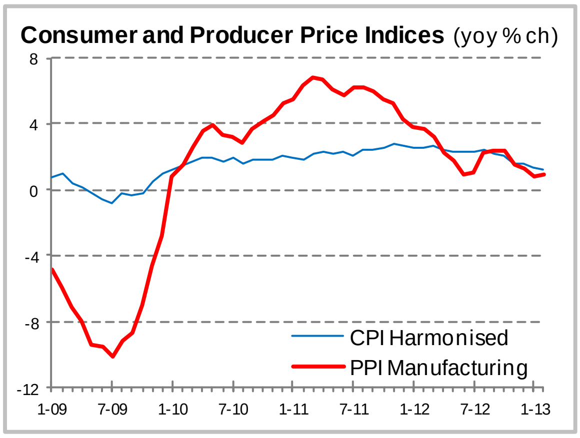
FRANCE

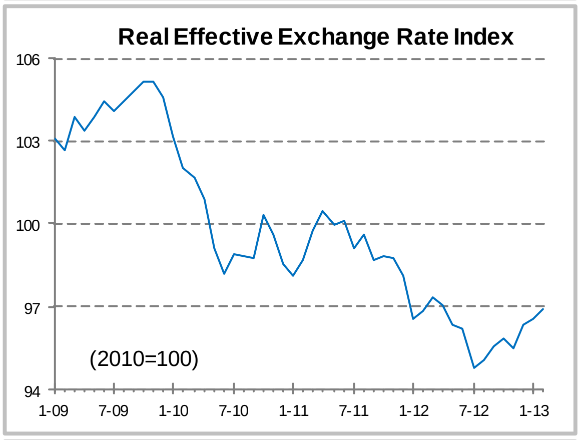


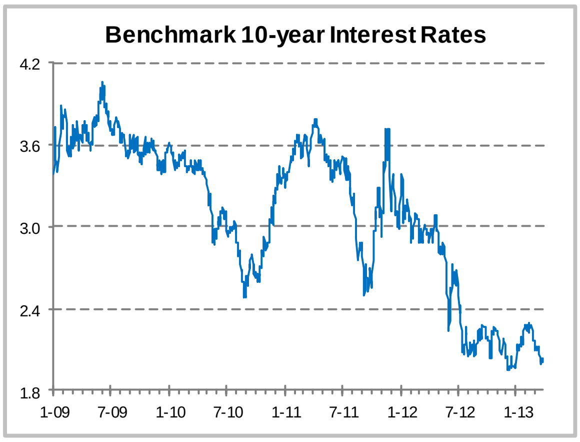


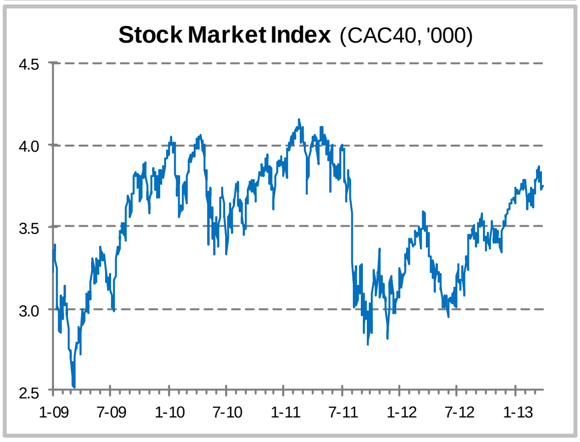












Sources: OECD, INSEE, BIS, daily press

BELGIUM

Real Indicators*	2010	2011	2012	Latest
GDP (wda)	2.4	1.8	-0.2	-0.4 Q4
Industrial Production	8.3	3.8	-3.0	3.0 Dec**
Construction (GVA)	0.5	4.8	0.4	-1.6 Q4
Consumer Prices – Harmonised Index***	2.3	3.4	2.6	1.4 Feb
Producer Prices***	6.9	9.0	3.7	3.8 Jan
Hourly Earnings-Industry***	1.1	1.3	1.7	1.8 Q4
Standardised Unemployment Rate (%)	8.3	7.2	7.3	7.4 Jan
Current Account Balance (bn €)	6.8	-5.2		-4.8 Q3°
as a percentage of GDP	1.9	-1.4		-1.3
Real Effective Exchange Rate Index§	100.0	100.8	98.9	100.3 Feb

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

Financial Indicators	2010	2011	2012	Latest
Short Term Interest Rate pa (Euribor 3m)	0.81	1.39	0.57	0.22 Feb
Long Term Interest Rate pa (benchmark 10y)	3.46	4.23	3.00	2.46 Feb
Stock Exchange (BEL20) Index (% ch)*	19.7	-5.5	-5.3	4.8 26/03/13**

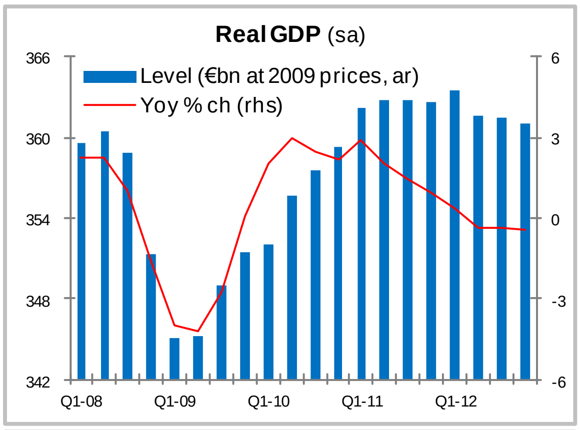
* Average over year; ** % change on 31/12/12

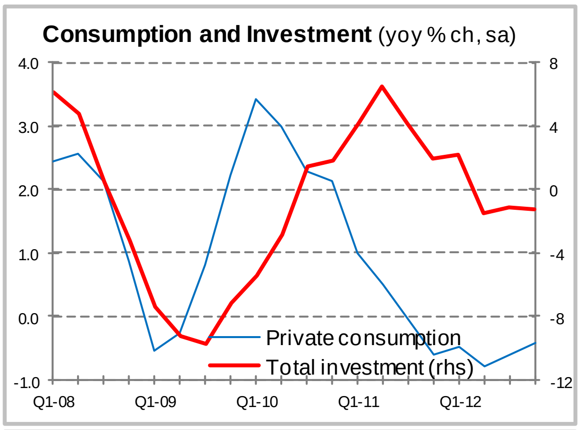
Sources: OECD, Institut National de Statistique, Banque National de Belgique, BIS, daily press

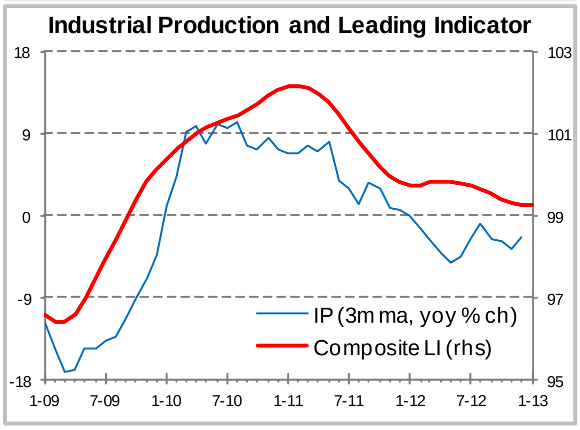
***Key message**: Economic conditions remain sluggish as activity is restrained by fiscal austerity and adverse external developments. Some hints of recovery may be at sight only in H2 13.*

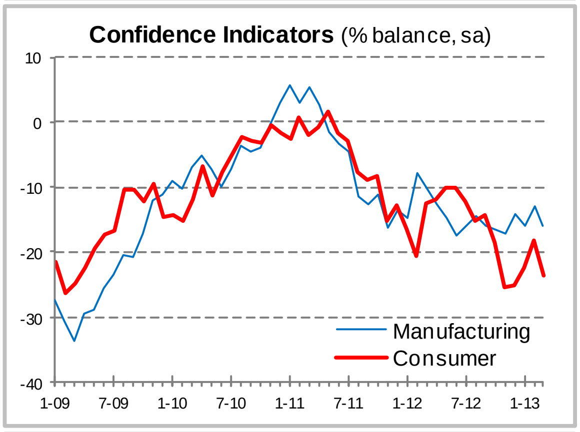
- After stagnating in Q3 12 the Belgian economy dropped once again in Q4 12 although by a small 0.1% qoq. The main drag on growth was private investment, given the fragile state of expectations, while private consumption was only mildly positive, also due to the fiscal tightening. Stagnation in government spending signalled the ongoing fiscal austerity drive although it should unfold at a less tight tone in the current year.
- Most forward looking indicators suggest that the economy will remain muted in H1 13 while struggling to regain marginal growth later on mainly thanks to positive export contribution. As a matter of fact, households continue to face strong headwinds, namely a squeeze on real disposable income as a result of poor labour-market conditions, the confidence-sapping impact of rising unemployment and the tight fiscal stance.
- Business investment remain under considerable pressure as firms are facing poor sales at home in conjunction with uncertain demand across the Eurozone
- Despite the unresolved political situation, the government remains committed to narrowing the budget deficit from the official estimate of 2.8% in 2012 to 2.2% in 2013, and balance the books by 2015. Given the perspective weakness of the economy an intensification of the fiscal consolidation effort is unlikely although this means that any significant reduction in the debt to GDP ratio is out of reach.

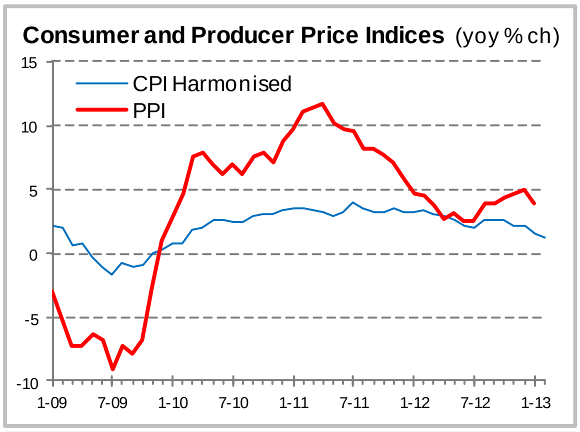
BELGIUM

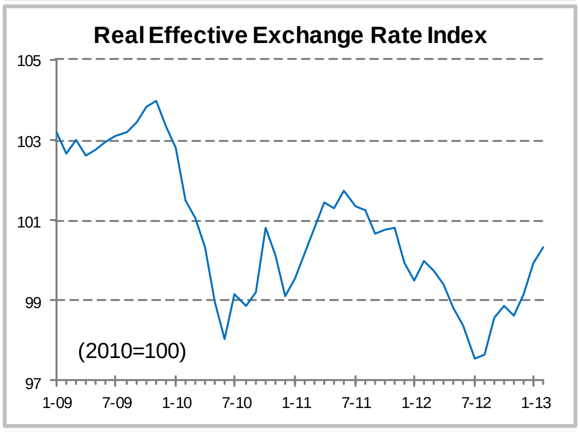


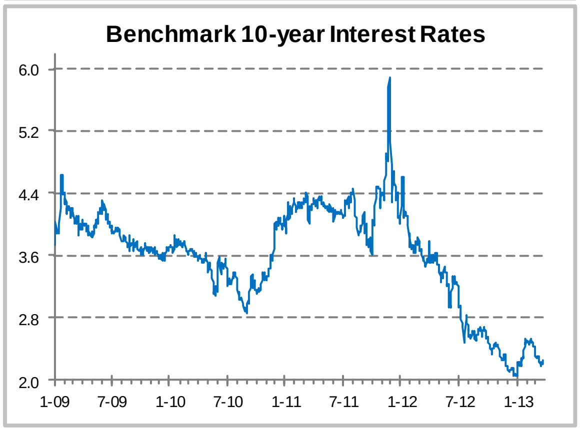


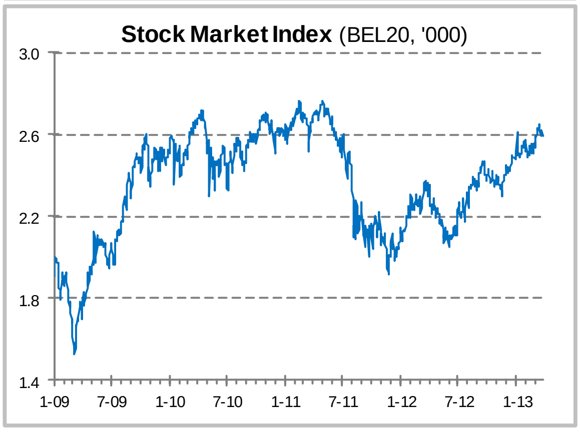












Sources: OECD, European Commission, Belgostat, BIS, daily press

ITALY

Real Indicators*	2010	2011	2012	Latest
GDP (wda)	1.7	0.5	-2.4	-2.8 Q4
Industrial Production	7.0	-0.7	-6.2	0.8 Jan**
Construction Investment	-4.6	-2.1	-6.4	-6.6 Q4
Consumer Prices - Harmonised Index***	1.6	2.9	3.3	2.0 Feb
Producer Prices***	3.0	4.7	3.6	0.3 Feb
Hourly Rates - Industry***	2.8	2.5	2.3	2.7 Dec
Standardised Unemployment Rate (%)	8.4	8.4	10.7	11.7 Jan
Current Account Balance (€bn)	-54.7	-48.4	-8.8	-8.8 Q4°
as a percentage of GDP	-3.5	-3.1	-0.6	-0.6
Real Effective Exchange Rate Index§	100.0	99.8	98.0	99.3 Feb

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

Financial Indicators	2010	2011	2012	Latest
Short Term Interest Rate pa (Euribor 3m)	0.81	1.39	0.57	0.22 Feb
Long Term Interest Rate pa (benchmark 10y)	4.04	5.42	5.49	4.49 Feb
Stock Exchange (MIBTEL) Index (% ch)*	5.0	-8.8	-15.4	-1.6 26/03/13**

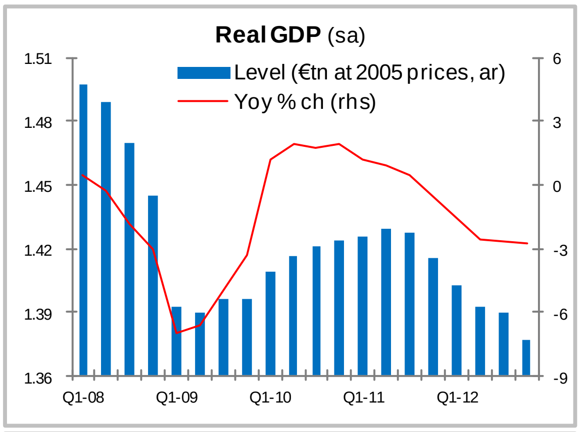
* Average over year; ** % change on 31/12/12

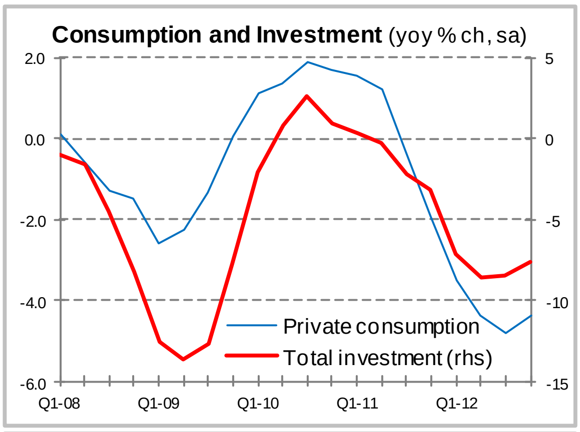
Sources: OECD, ISTAT, BIS, Banca d'Italia, daily press

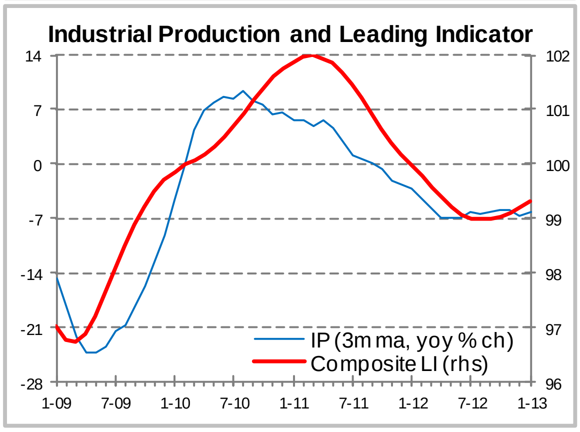
***Key message**: The economy is crawling in depressionary conditions and the political uncertainty following February's general elections risks to give way to further deterioration amid revived financial turmoil.*

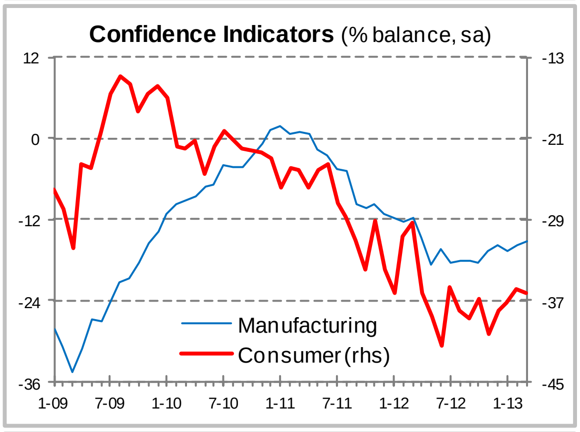
- GDP contracted by a higher than expected 0.9% qoq in Q4 12 on the back of a plummeting domestic demand which was only partly compensated by the positive contribution from net export. While the fall in investment was broadly in line with expectations, the magnitude of the private consumption drop was somewhat surprising.
- The statistical carry-over for 2013 is already a large -1% and data for the first months point to continuing weakness: industrial production is stuck at very low levels, retail sales are still in negative territory, the labour market continues to deteriorate, and credit conditions remain tight.
- The unemployment rate keeps rising. Worryingly, more recently the reason behind the rise is the loss of employment rather than, as it had been last year, the increase in the labour force.
- Some positive signals come from order books and industrial turnovers in non-domestic markets which may herald a recovery in exports following the weak performance in Q4 12.
- The tentative signs of stabilisation of the economy and of expectations are likely to be put at serious risks by the uncertainty following last February's general election. With no clear winner, forming a Government is proving extremely difficult and a recourse to general elections again soon cannot be excluded, albeit the outcome would very likely not change much.
- Financial markets have so far reacted relatively well to the above political mess. Clearly, should instability persist, another wave of financial turmoil could erupt in the euro area, which could have unforeseeable outcomes.
- The fiscal deficit to GDP ratio was 3% in 2012 compared with 3.9% in 2011, with a primary surplus (excluding interest payments) of 2.5% of GDP which was, however, unable to prevent a further increase in the public debt to GDP ratio to 127%.

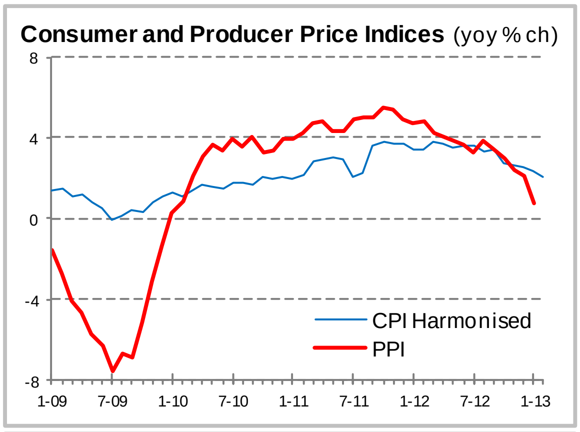
ITALY

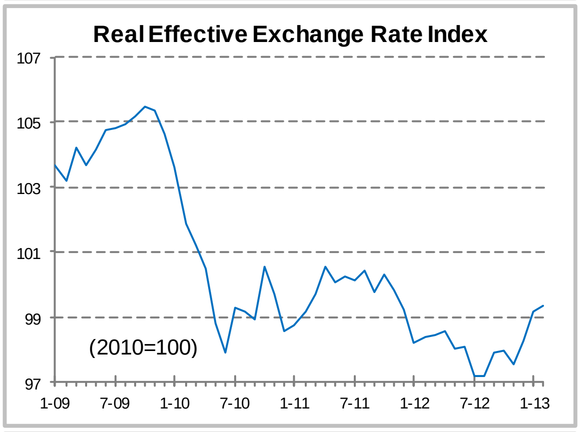


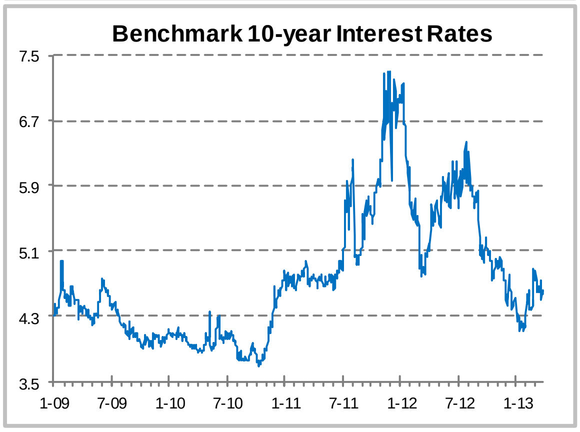


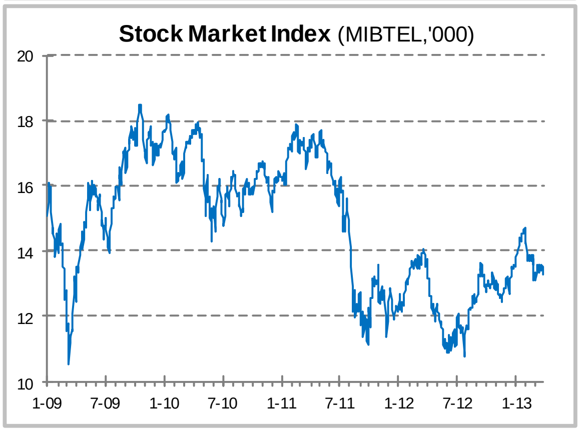












Sources: OECD, ISTAT, BIS, daily press

SPAIN

Real Indicators*	2010	2011	2012	Latest
GDP (wda)	-0.3	0.4	-1.4	-1.9 Q4
Industrial Production	0.8	-1.4	-6.0	0.6 Jan**
Construction Investment	-9.8	-8.9	-11.3	-12.1 Q4
Consumer Prices - Harmonised Index***	2.0	3.1	2.4	2.6 Mar
Producer Prices - Manufacturing***	3.2	6.9	3.5	2.1 Feb
Hourly Earnings***	1.4	2.7		1.4 Q3
Standardised Unemployment Rate (%)	20.1	21.6	25.1	26.2 Jan
Current Account Balance (€bn)	-47.4	-37.5	-8.3	-8.3 Q4°
as a percentage of GDP	-4.5	-3.5	-0.8	-0.8
Real Effective Exchange Rate Index§	100.0	100.3	98.1	99.2 Feb

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

Financial Indicators	2010	2011	2012	Latest
Short Term Interest Rate pa (Euribor 3m)	0.81	1.39	0.57	0.22 Feb
Long Term Interest Rate pa (benchmark 10y)	4.25	5.44	5.85	5.22 Feb
Stock Exchange (MSE) Index (% ch)*	3.1	-9.8	-20.8	-2.4 26/03/13**

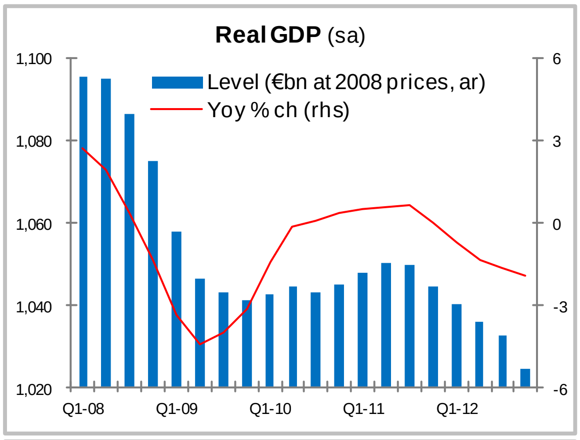
* Average over year; ** % change on 31/12/12

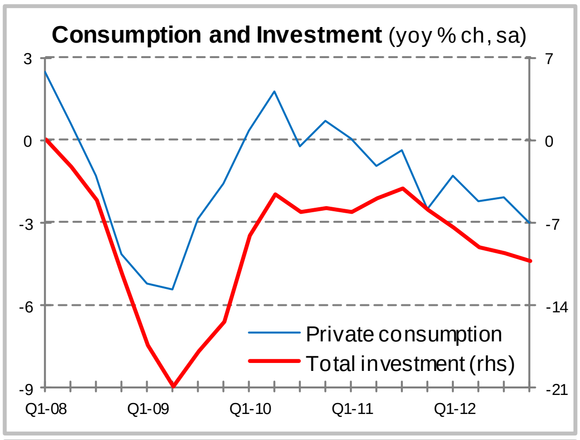
Sources: OECD, INE, BIS, daily press

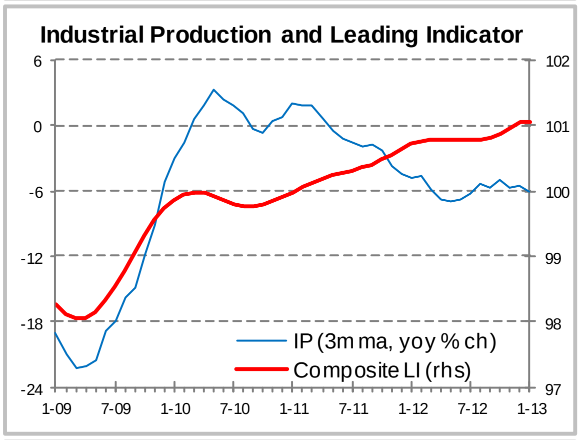
***Key message**: Spain's troubles do not seem to be headed to an end soon. Despite the government's reluctance, the recourse to EU financial support appears desirable given the dire state of the economy, the deep recession in construction activity, the dismal state of the banking sector, and the sky-rocketing unemployment.*

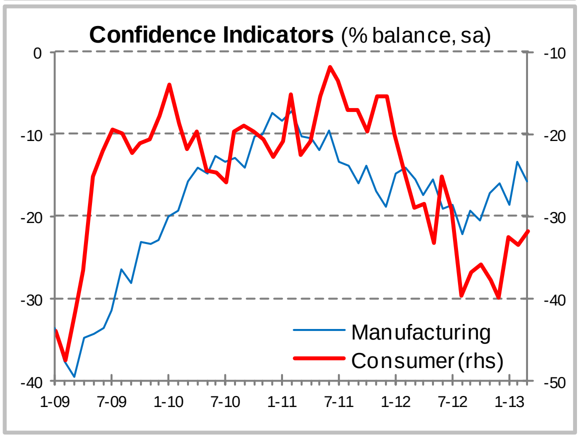
- Spain's GDP contracted further in Q4 12 (by a sharp 0.8% qoq, slightly more than in Q3 12), the main drag on activity being the rise in the general VAT rate from 18% to 21% (and the reduced rate from 8 to 10%) from last September. As a matter of fact, this distorted the profile of demand in the second half of 2012 as consumers and firms brought forward their purchasing plans ahead of the VAT increase in September while a severe toll on spending occurred in Q4 12.
- Economic conditions remain sluggish and prospects are not benign also for the next months: the number of registered unemployment rose sharply to nearly six millions in January; retail spending and new car sales are expected to continue to fall in the wake of last September's VAT hike; in turn, the real-estate slump and a still deteriorating consumer spending outlook are set to weigh down on service sector firms.
- The number of bankruptcies rose by 39.4% yoy in Q4 12. The continuing rise in doubtful loans indicates that the full impact of the housing bubble burst has yet to be fully felt on banks' balance sheets. Non-performing loans are expected to continue to rise in the coming months, resulting from both a continuing fall in property prices and a deterioration of the overall economic environment.
- Despite the VAT increase and higher crude oil prices, consumer price inflation continued its downward trajectory in March. Dismal economic and labour-market conditions will continue to squeeze wage growth. Consequently, underlying inflationary pressures are likely to be limited.
- The fiscal deficit outcome for 2012 was better than expected (at 7% to GDP, a bit higher than the official target of 6.3%) and the government is still unwilling to resort to official EU financial support, although hitting this year budget target (3% of GDP) appears nearly impossible.

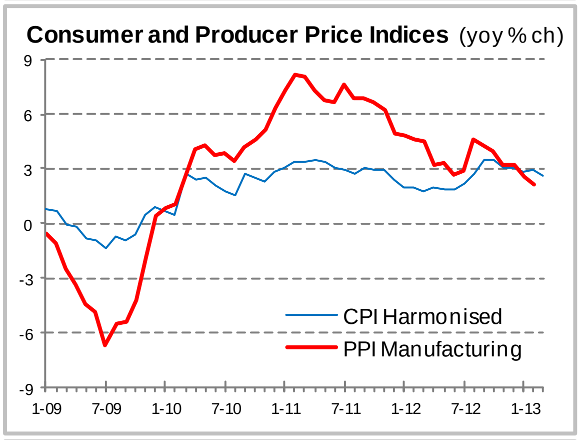
SPAIN

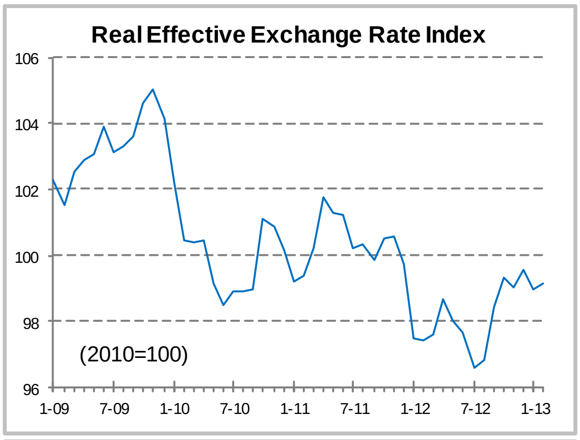


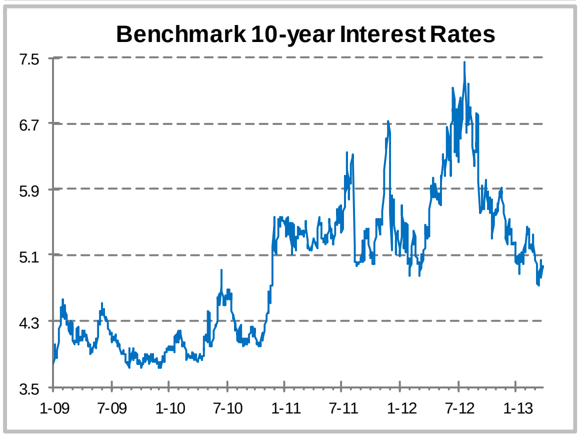


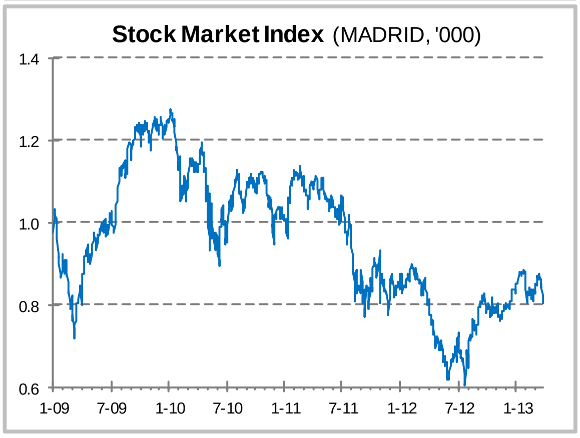












Sources: OECD, INE, BIS, daily press

GREECE

Real Indicators*	2010	2011	2012	Latest
GDP***	-4.9	-7.1	-6.4	-5.7 Q4
Industrial Production	-6.6	-8.1	-3.5	-0.9 Jan**
Construction Investment***	-19.2	-21.0	-22.7	-22.2 Q4
Consumer Prices – Harmonised Index***	4.7	3.1	1.0	0.1 Feb
Producer Prices – Manufacturing***	7.4	8.6	3.8	-0.3 Feb
Standardised Unemployment Rate (%)	12.6	17.7	24.3	26.0 Q4
Current Account Balance (€bn) ***	-22.5	-20.6	-5.6	-5.6 Q4°
as a percentage of GDP	-10.1	-9.9	-2.9	-2.9
Real Effective Exchange Rate Index§	100.0	100.5	97.4	95.0 Feb

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

Financial Indicators	2010	2011	2012	Latest
Short Term Interest Rate pa (Euribor 3m)	0.81	1.39	0.57	0.22 Feb
Long Term Interest Rate pa (benchmark 10y)	9.09	15.75	22.50	10.95 Feb
Stock Exchange (ASE) Index (% ch)*	-21.6	-31.9	-38.9	-2.5 26/03/13**

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

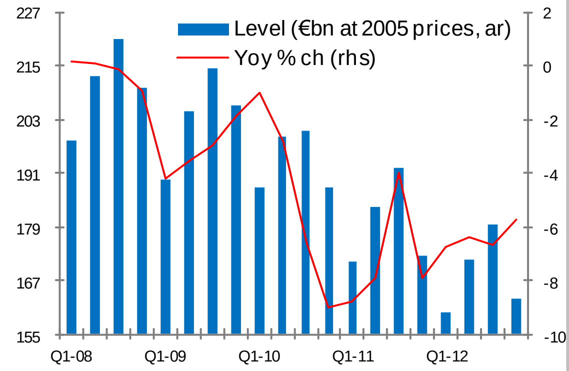
Sources: OECD, National Bank of Greece, BIS, daily press

Key message*: The Greek economy is still in the doldrums and forward indicators suggest that the recession will remain firmly in place during the first half of this year as the economy continues to be hit by fiscal austerity, mass unemployment, and still significant concerns about the outlook.*

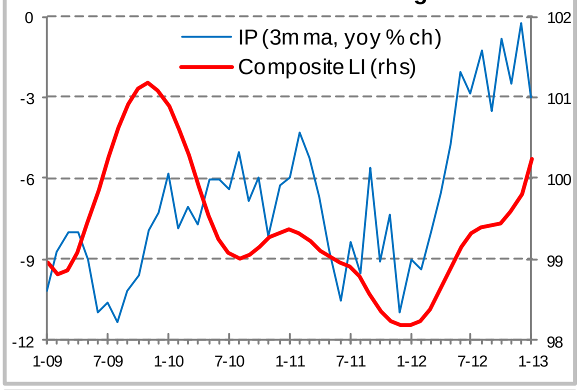
- GDP dropped at a very sharp rate also in Q4 12 (5.7% yoy) on the back of weak consumer spending, bitten by falling disposable incomes (amid major wage and pension cuts as well as higher taxes) and rising unemployment. On year average, GDP has contracted by roughly 20% between 2007 and 2012.
- January's figures show a continuing impressive correction of external deficit. Most of this adjustment, however, was due to a collapse in imports, while export growth has remained subdued.
- Public investment has been cut back significantly by the government to meet the fiscal deficit targets. Meanwhile, private investment has remained sluggish as business confidence has plummeted, capacity utilisation has fallen, financing conditions have continued to deteriorate and uncertainty has deterred foreign investors.
- Unemployment reached a new record high in Q4 12 (26%) and it is set to continue to climb over the coming quarters, thus providing a significant hit to domestic demand and representing a major concern also for social stability.
- Consumer prices continued to ease in February and deflation is now looming. Continuing recession, structural reforms to labour and product markets, further austerity measures - in order to meet conditions under the bail-out deal agreed with the EU and IMF- are set to put further downward pressure on price levels in the coming months.
- According to the Ministry of Finance, the budget deficit narrowed in 2012 (likely to hit the target deficit to GDP of 6.6%). Greece has also introduced €13.5bn of new measures for the 2013/14 period, with most of the adjustment (worth 5% of GDP) starting this year.

GREECE

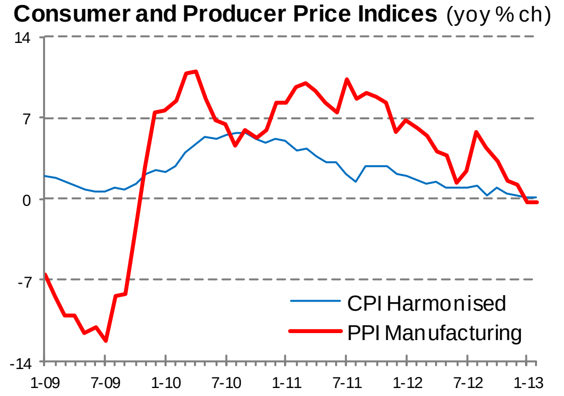
Real GDP



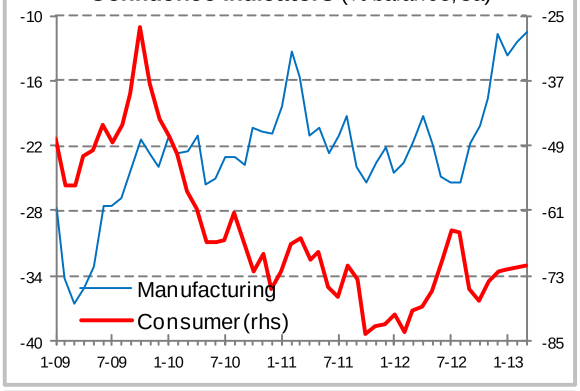
Industrial Production and Leading Indicator



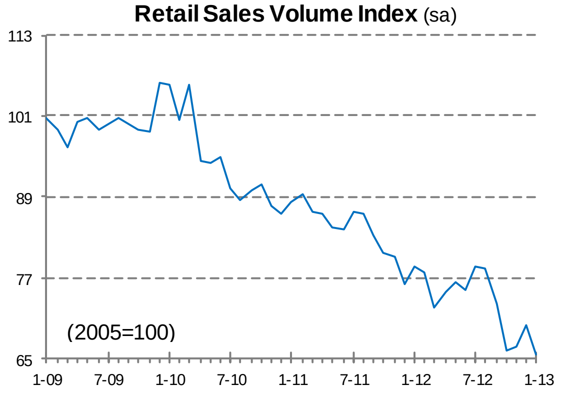
Consumer and Producer Price Indices (yoy % ch)



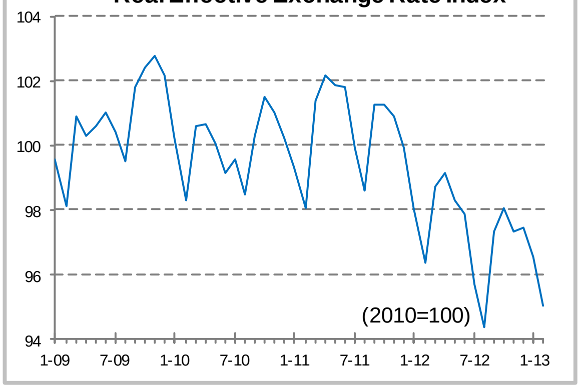
Confidence Indicators (% balance, sa)



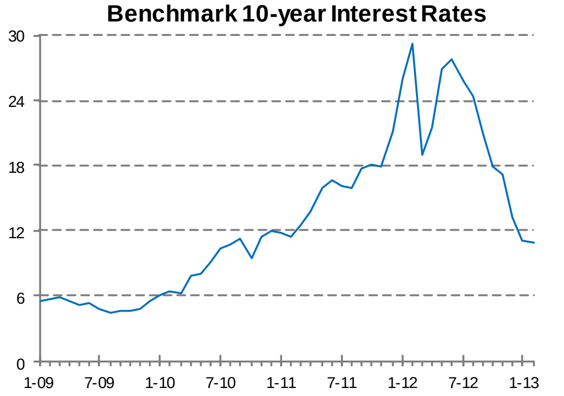
Retail Sales Volume Index (sa)



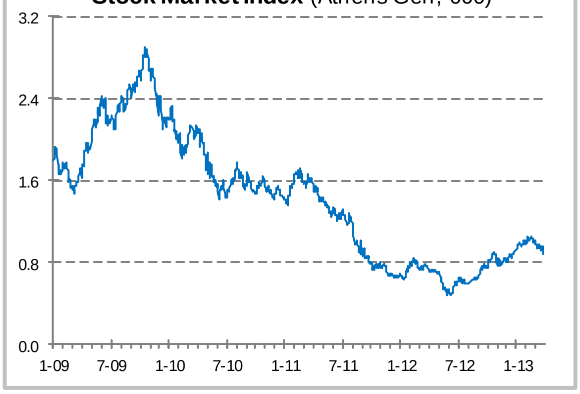
Real Effective Exchange Rate Index



Benchmark 10-year Interest Rates



Stock Market Index (Athens Gen, '000)



Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2010	2011	2012	Latest
GDP (wda)	0.4	1.8	0.3	0.5 Q4
Gross Fixed Capital Investment (wda)	-18.3	-6.5	-1.0	1.5 Q4
Industrial Production – Manufacturing	3.9	5.2	0.0	5.6 Jan
Consumer Prices – Harmonised Index	3.0	3.4	2.4	2.2 Feb
Producer Prices – Manufacturing	8.4	10.0	4.5	1.7 Feb
Unemployment Rate (%)	10.3	11.3	12.2	12.4 Jan
Current Account Balance (US$bn)	-0.8	0.2	-0.4	-0.4 Q4°
as a percentage of GDP	-1.5	0.3	-0.7	-0.7
Real Effective Exchange Rate Index§	100.0	101.7	100.1	102.5 Feb

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

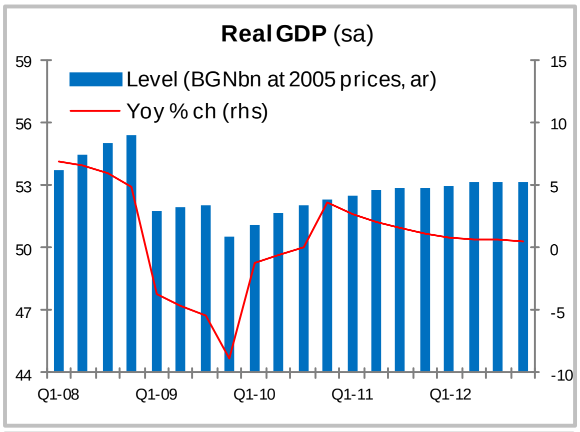
Financial Indicators				
Short Term Interest Rate pa (sofibor o/n)	0.4	0.5	0.2	0.1 Feb
Short Term Interest Rate pa (sofibor 3m)	4.1	3.8	2.3	1.2 Feb
Long Term Interest Rate pa (benchmark 10y)	6.0	5.4	4.5	3.2 Feb

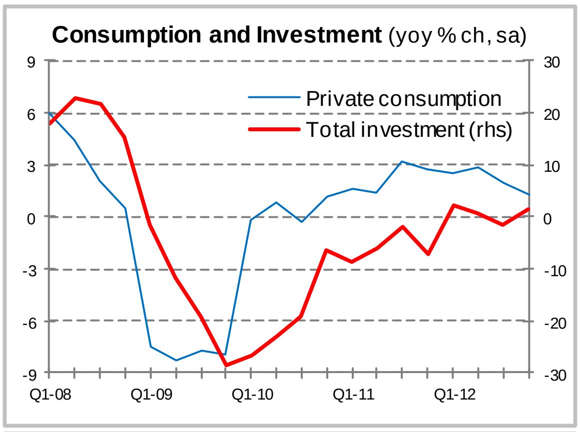
Sources: National Statistics Institute, BIS, National Bank of Bulgaria, Eurostat

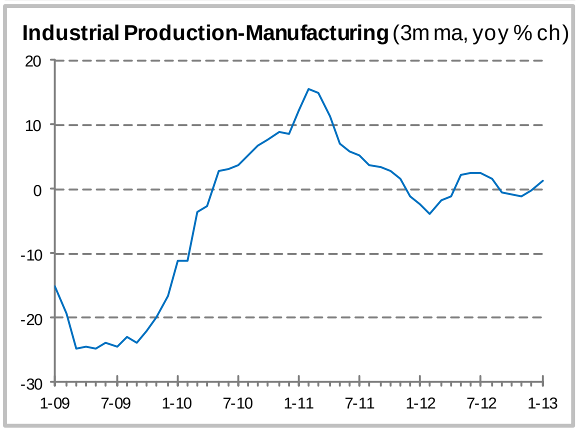
Key message: *Economic performance remains lacklustre and is strictly dependent on euro area developments. At the same time, domestic related problems remain (high unemployment and tight credit).*

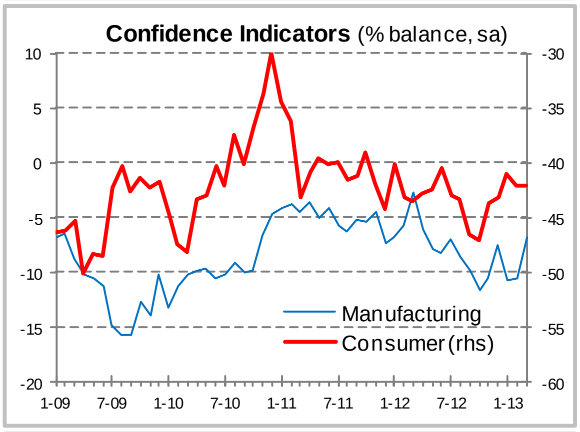
- Bulgarian GDP was flat in Q4 12 as households' consumption was restrained despite being the main driver for overall growth in 2012. Investment gained momentum, albeit from a feeble base, while net exports gave a positive contribution only due to a drop in imports.
- Industrial production appears to have gained some traction in January. Nevertheless, given sagging exports, tight credit, and high unemployment, industrial activity is likely to continue to struggle in the next months.
- Consumer confidence has somewhat improved recently. High unemployment and the need to reduce troublesome debt burdens in the face of a still relatively tight credit conditions will keep households very cautious about spending through the year.
- HCPI continued to slow in February and inflationary expectations remain well entrenched also due to benign price developments at the producers' level.
- The current account returned in deficit in 2012 (0.7% of GDP), compared with a slight surplus (0.3%) GDP in 2011. The reversal was driven by a sharp drop in exports to Bulgaria's EU partners.
- After reducing the budget deficit to 2.1% of GDP in 2011, Bulgaria was the first country to exit the excessive deficit procedure. Fiscal deficit is now on track to narrow to 0.9% of GDP. This would be better than the government had originally planned (the 2012 deficit target was set at 1.3% of GDP); therefore, its fiscal consolidation efforts should be put on hold.

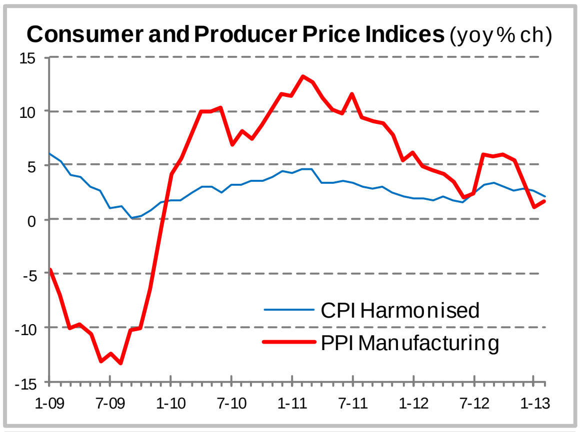
BULGARIA

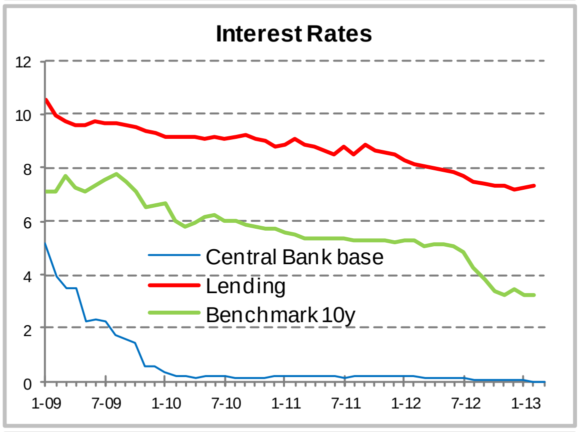


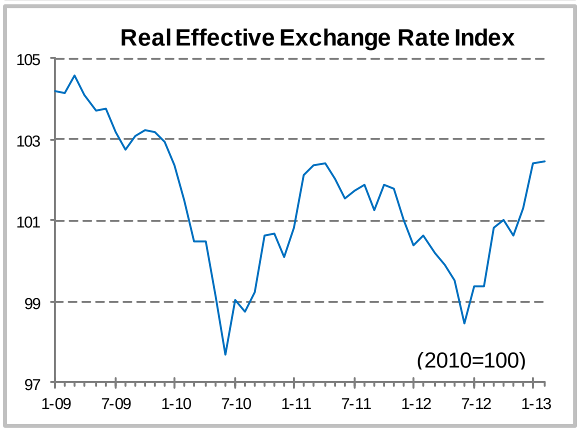


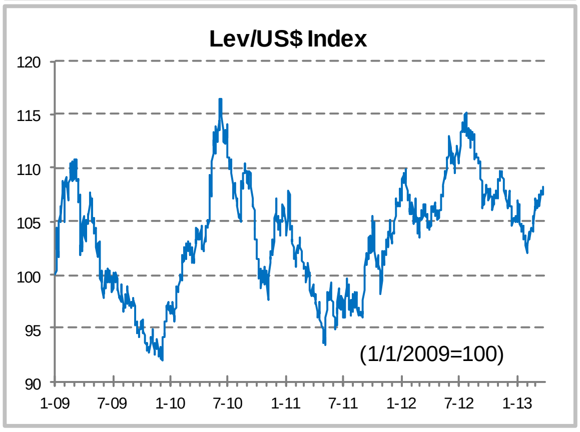












Sources: National Statistics Institute, National Bank of Bulgaria, BIS, daily press

EGYPT

Real Indicators*	2010	2011	2012	Latest
GDP	5.7	-0.8		2.5 Q3
Construction Production (GVA)	12.9	-2.9		5.4 Q3
Consumer Prices	11.3	10.2	7.2	8.3 Feb
Producer Prices	12.7	14.7	2.5	-0.4 Jan
Unemployment Rate (%)	9.0	12.0	12.7	13.0 Q4
Current Account Balance (US$bn)	-5.6	-7.6		-6.0 Q3°
as a percentage of GDP	-2.4	-3.1		-2.3
Real Effective Exchange Rate Index	96.0	95.4	101.2	94.3 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)	8.3	9.0	9.7	9.7 Jan
Short Term Interest Rate pa (91 days T-Bill)	9.6	11.8	13.7	13.2 Jan
Stock Exchange (CASE) Index (% ch)*	19.2	-26.5	2.3	-6.1 26/03/13**

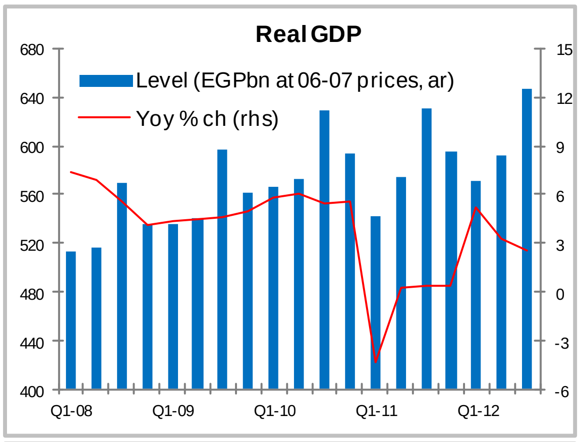
* Average over year; ** % change on 31/12/12

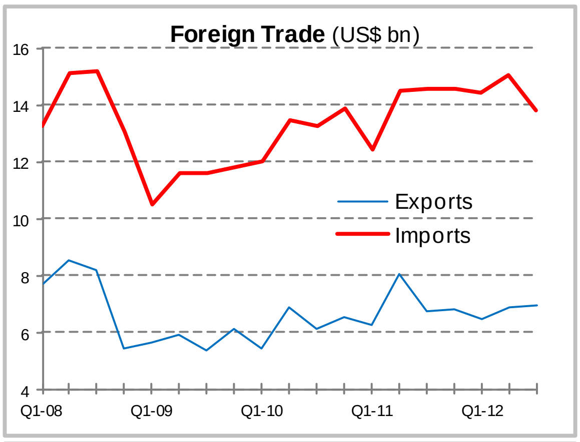
Sources: Central Bank of Egypt, Central Agency for Public Mobilization and Statistics, SESO's calculation, daily press

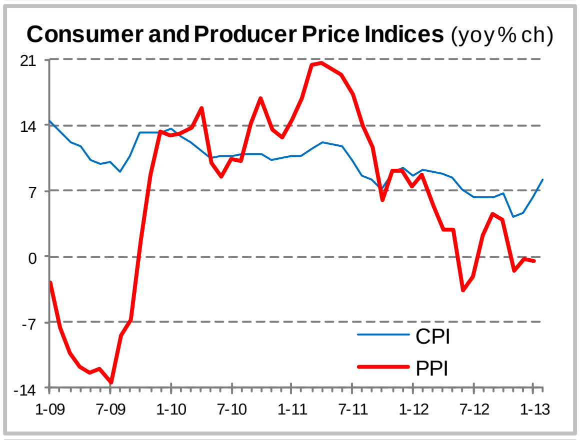
***Key message**: Egypt is gripped in a very difficult position. Political instability and social discontent are intertwined with the perilous state of the economy and international help will not come without a credible commitment to economic reform by the government.*

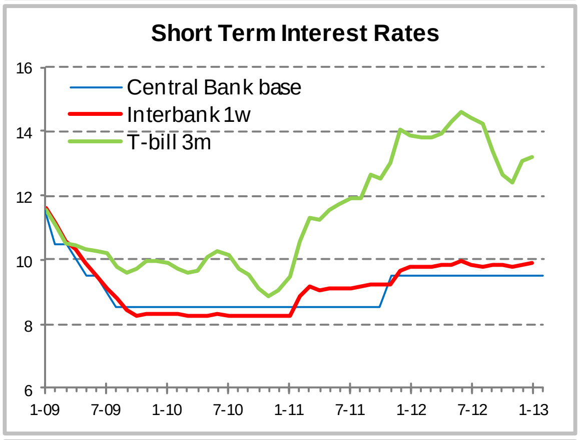
- Two years after Mubarak's ousting the political scene has not yet stabilised. In fact, following last November decree by president Morsi (which grants him greater power) and the approval of the new constitution, tension has escalated to give way to mass protests and also violence. New parliamentary elections were due next April, but have been further delayed (probably to next Autumn) meaning that months of deep instability are looming.
- Real GDP growth slowed in Q3 12 and there are indications that the economy weakened further in the final part of the year. Unemployment continues to rise, particularly among people with higher education, while the tourism sector has so far failed to recover to pre-revolution levels.
- Worryingly, the long awaited IMF deal (worth US$4.8bn) has been further delayed and looks now very unlikely to be concluded until after next parliamentary elections. As a matter of fact, to unlock the funds the IMF requires, among other conditions, that Egypt cancels certain subsidies, which account for a large part of the public budget, the most important ones being on bread, electricity, and fuels. Pursuing fiscal consolidation (the fiscal deficit rose to almost 11% as a ratio to GDP in the fiscal year ended in June 2012) amid the current turmoil and ahead of political elections does not appear feasible nor is the structural reform program required by the IMF for securing the loan high on the presidential agenda.
- International reserves have fallen to record lows in January (from US$36bn in December 2010 to current levels of US$13.6bn) meaning that the import of staple goods and fuel looks increasingly at risk. The Central Bank is not able to defend the currency anymore and a sharp depreciation has started by the turn of the year. This is fuelling inflation, which had remained remarkably tame in the past two years, and has prompted the Central Bank to hike the policy interest rate recently.
- Egypt is heading towards an unsustainable loop in which the currency cannot be defended and inflation spikes, thus fuelling social discontent. This, in turn, hampers the implementation of much needed reforms and the revival of foreign investors' confidence. Not surprisingly, the major rating agencies have recently downgraded Egypt's sovereign.

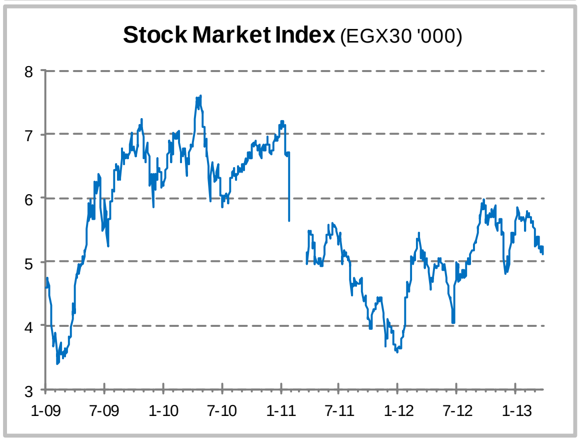
EGYPT

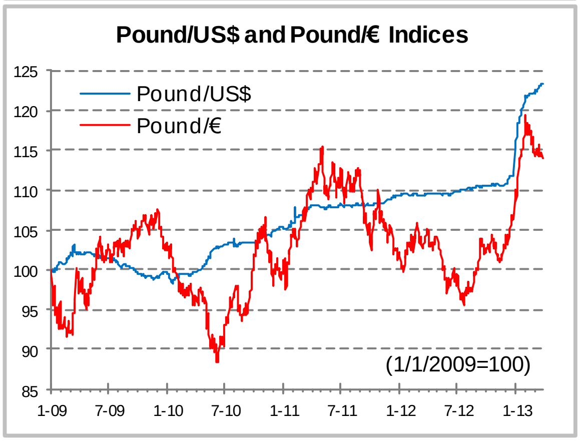












Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2010	2011	2012	Latest
GDP**	3.6	5.0		2.9 Q3
Construction Production (GVA)**	2.6	4.5		-1.7 Q3
Industrial Production	2.0	2.4	1.5	0.2 Q4
Consumer Prices	1.0	0.9	1.3	2.2 Feb
Producer Prices – Manufacturing	6.4	14.8	4.8	0.6 Jan
Urban Unemployment Rate (%)	13.7	13.3	13.5	13.2 Q4
Current Account Balance (US$bn)	-4.1	-8.0		-9.0 Q3°
as a percentage of GDP	-4.8	-8.6		-9.9
Real Effective Exchange Rate Index§	98.0	95.7	93.8	94.3 Jan

* 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	3.2	3.1 Feb
Stock Exchange (MASI) Index (% ch)*	9.2	0.4	-13.6	-4.6 26/03/13**

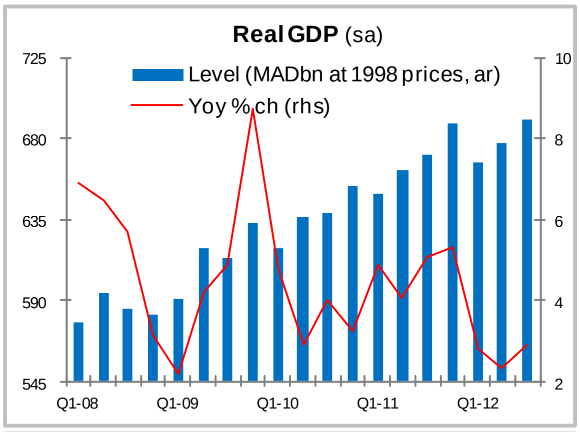
* Average over year; ** % change on 31/12/12

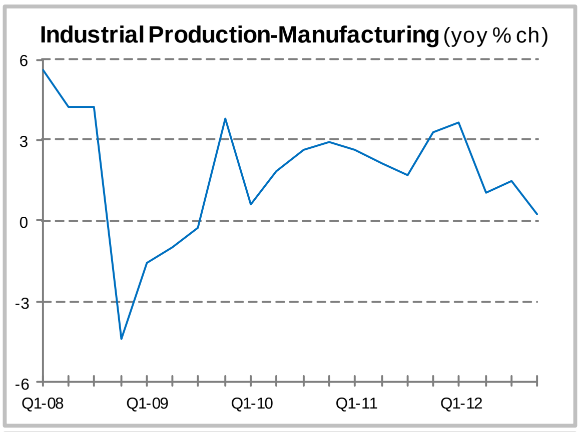
Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, IMF, daily press

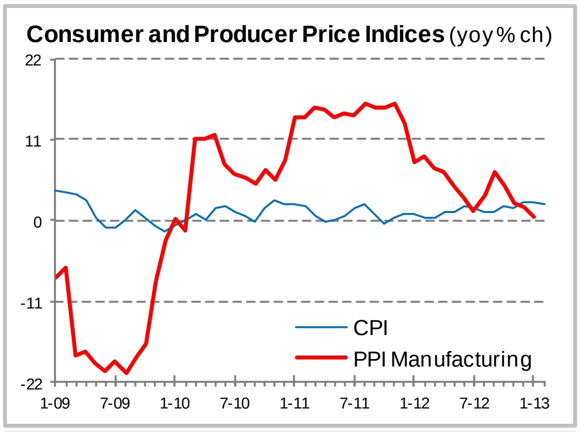
***Key message**: Assuming a normal harvest this year, the economy is set to recover although growth will be constrained by the euro area weakness. The external and fiscal imbalances continue to widen representing the main risks to the country in perspective.*

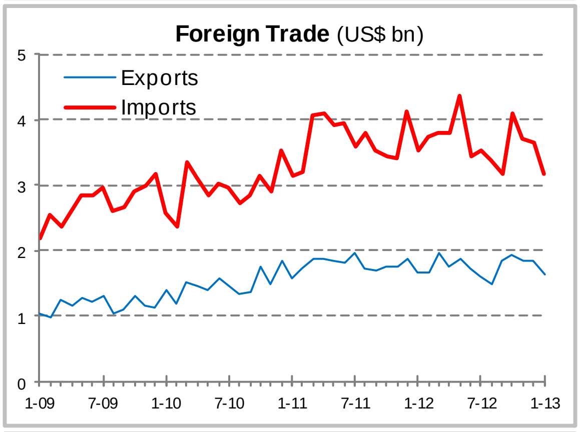
- Although national account data for Q4 12 are not yet available, it is likely that the Moroccan economy continued to languish in the final part of 2012. The agriculture sector was battered by drought last year, hence restrained income formation, depressed consumer confidence and negative economy-wide consequences.
- As a reminder, the primary sector accounts for roughly 40% of Morocco's total employment, and as such, a poor agriculture performance is immediately reflected in weaker household consumption. Lower remittance inflows from Moroccans working abroad, particularly in Europe, are also playing a role in weaker consumption.
- The recession in the euro area in Q4 12 is among the primary causes of industrial activity stagnation and of disappointing tourist receipts.
- The budget deficit continued to widen in 2012 rising by more than 50% compared to a year earlier and well above the 5% ratio to GDP target. The reform of the subsidy regime, which has put public finances under considerable strain in recent years, has been too timid (administered fuel price increases in April 2012 and a reduction in some agricultural subsidies in September) but remains the key way to avoid a spiralling deficit although it is clearly politically risky.
- As a matter of fact, Moody's has recently downgraded Morocco's credit rating outlook to negative as concerns mount on the burgeoning fiscal deficit (primarily due to rising wages and a still large subsidy bill, in turn caused by high energy prices) and the large current account negative position

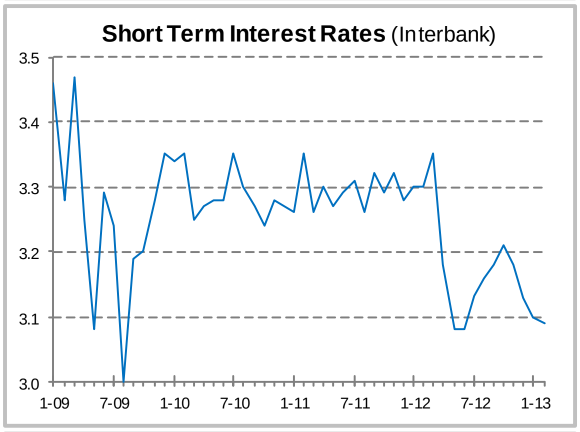
MOROCCO

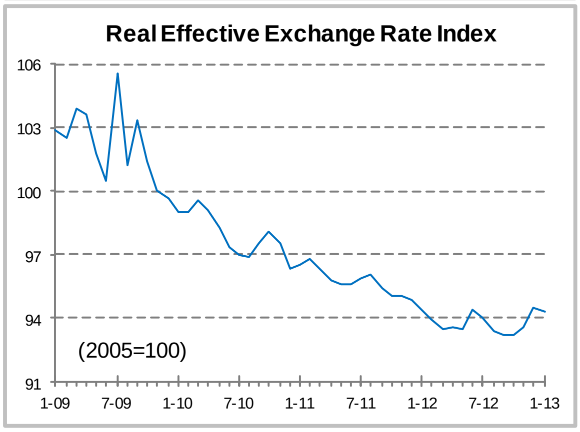


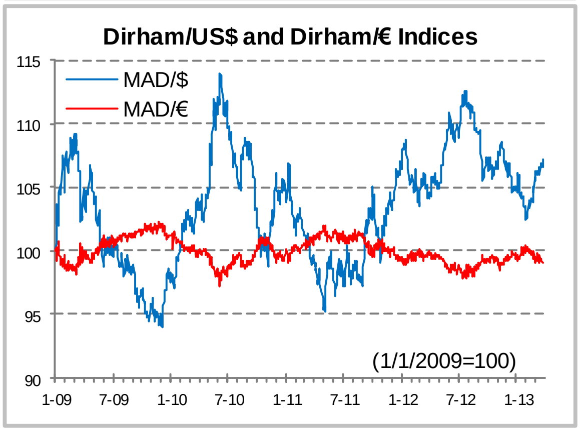












Sources : Direction de la Statistique du Maroc, Haut Commissariat au Plan, Office des Changes, IMF, daily press

THAILAND

Real Indicators*	2010	2011	2012	Latest
GDP***	7.8	0.1	6.4	18.9 Q4
Industrial Production – Manufacturing	14.6	-9.1	2.3	-1.4 Feb**
Construction Investment***	6.6	-5.3	8.9	17.2 Q4
Consumer Prices***	3.3	3.8	3.0	3.2 Feb
Producer Prices***	9.5	5.5	1.0	0.1 Feb
Unemployment Rate (%)***	1.0	0.7	0.7	0.5 Dec
Current Account Balance (US$bn)	10.0	5.9	2.7	2.7 Q4°
as a percentage of GDP	3.1	1.7	0.8	0.8
Real Effective Exchange Rate Index§	100.0	99.0	99.2	101.7 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)	1.3	2.8	2.9	2.7 Feb
Stock Exchange Index (Bangkok) (% change)*	45.7	21.1	17.7	10.5 26/03/13**

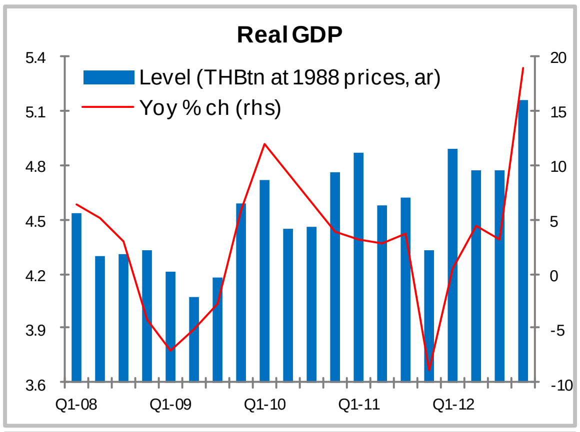
* Average over year; ** % change on 31/12/12

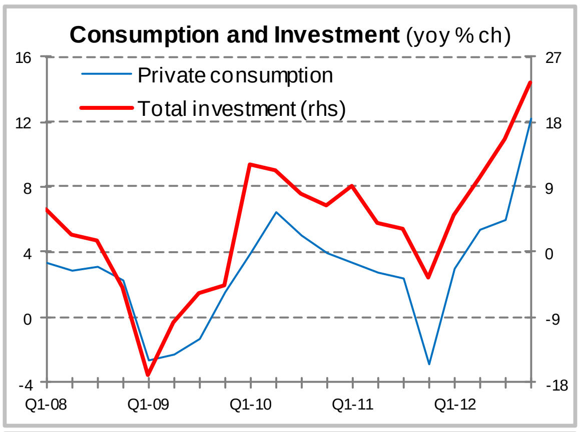
Sources: Bank of Thailand, National Economic and Social Development Board, BIS, daily press

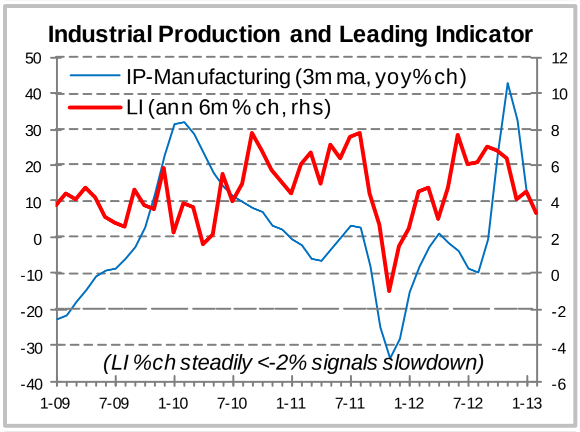
***Key message**: Following a record performance in Q4 12, the Thai economy is expected to soften in 2013. Populist policies as well as recovering external demand will support growth while inflation risks remain, so far, at bay.*

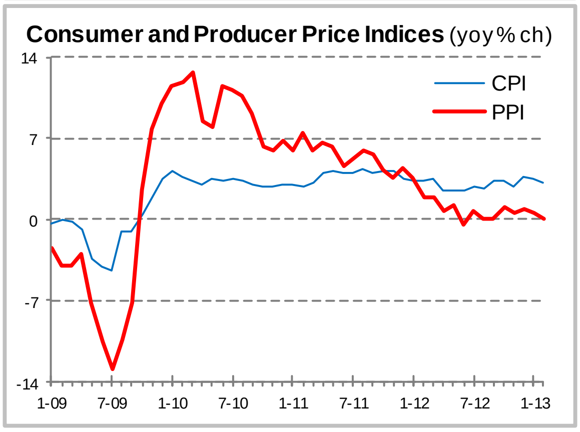
- GDP surprised on the upside in Q4 12 as it jumped by a record-setting 18.9% yoy (only two times in the last 20 years the Thai economy has posted two-digit growth and never so high). A rebound was expected given the flood-induced low level of GDP in the corresponding quarter in 2011; nevertheless, it exceeded forecasts as the 3.6% qoq growth was well above the previous quarter 1.5%.
- All demand component performed very healthily, particularly consumption. A government incentive scheme promoting eco-friendly car purchases as well as considerable minimum wage increases, which have translated into broad wage increases across the country, may help explain the consumption boom. In addition, government financed infrastructure programmes contributed to a steady increase in investment spending.
- Looking forward, ongoing incentives and lower corporate taxes should continue to prop up investment while some pull-back in consumption may be expected once the impact of the eco-friendly car programme fades. This notwithstanding, the recovery of China and Japan, among Thailand's main trading partners, should support export-led sectors.
- Despite the 40% increase in the minimum wage decreed in April 2012 inflation remain well under control although further upward pressures cannot be ruled out.
- The ongoing appreciation of the *baht* is fuelling tensions between the Bank of Thailand (BoT) and the government. The latter is particularly worried that the excessive rise in the value of the currency may hurt the country's export industries while the BoT wants to retain its independence arguing that the appreciation of the currency reflects the relative strength of the Thai economy. In this context, the introduction of temporary capital controls aimed at limiting the *baht*'s rise cannot be excluded.

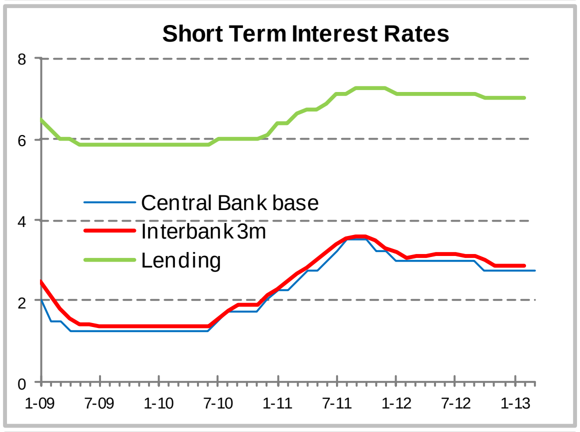
THAILAND

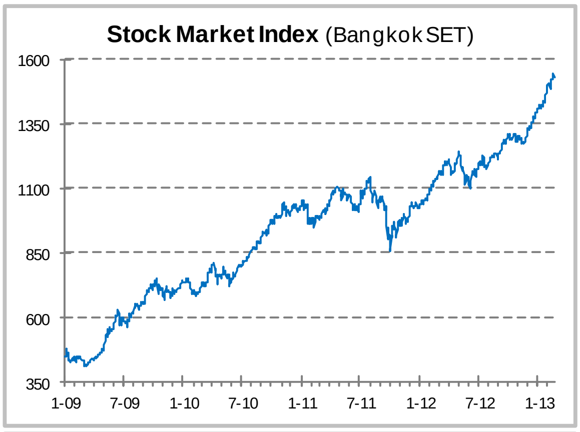


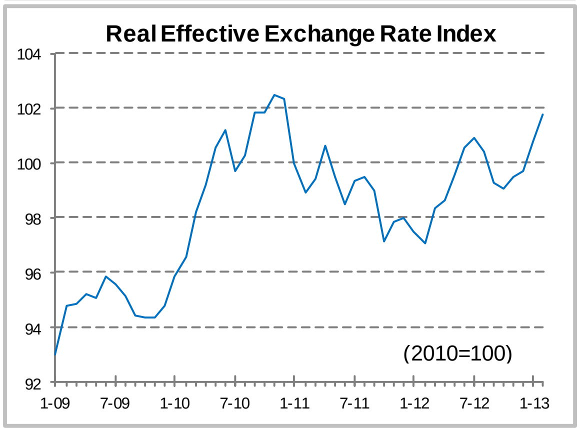


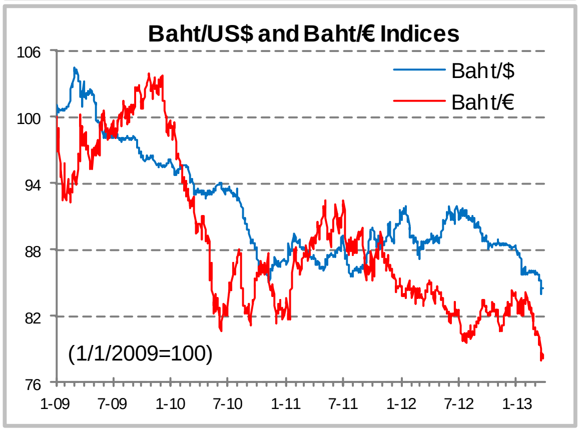












Sources: NESDB, Bank of Thailand, daily press, BIS

INDIA

Real Indicators*	2010	2011	2012	Latest
GDP**	9.8	7.3	5.1	4.5 Q4
Industrial Production – Manufacturing	11.2	3.3	1.4	2.4 Jan
Construction Production (GVA)**	9.3	6.5	7.0	5.8 Q4
Consumer Prices	12.0	8.9	9.3	11.6 Jan
Wholesale Prices	9.6	9.5	7.5	6.8 Feb
Current Account Balance (US$bn)**	-54.5	-62.5		-80.6 Q3°
as a percentage of GDP	-3.5	-3.5		-4.7
Real Effective Exchange Rate Index§	100.0	99.6	93.6	93.7 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	2010	2011	2012	Latest
Short Term Interest Rate pa (91-day T-bills)	5.4	8.0	8.4	8.0 Feb
Policy Rate (Repo)	5.5	7.5	8.1	7.8 Mar
Stock Exchange Index (Mumbai) (% ch)*	33.5	-2.3	-0.7	-3.7 26/03/13**

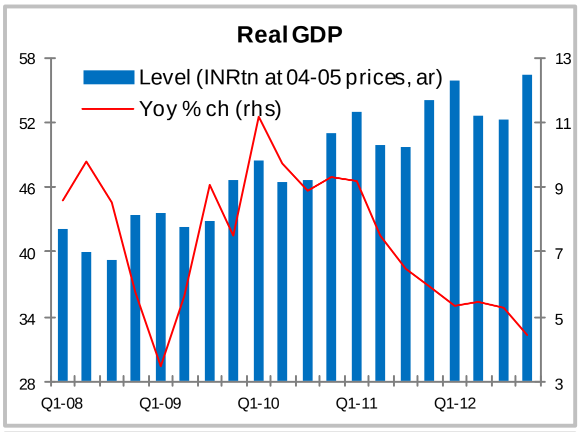
* Average over year; ** % change on 31/12/12

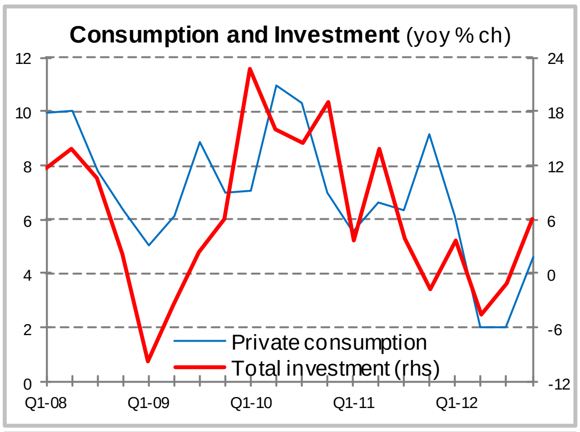
Sources: Reserve Bank of India, BIS, Office of Economic Advisor, Labour Bureau, Statistics India, daily press

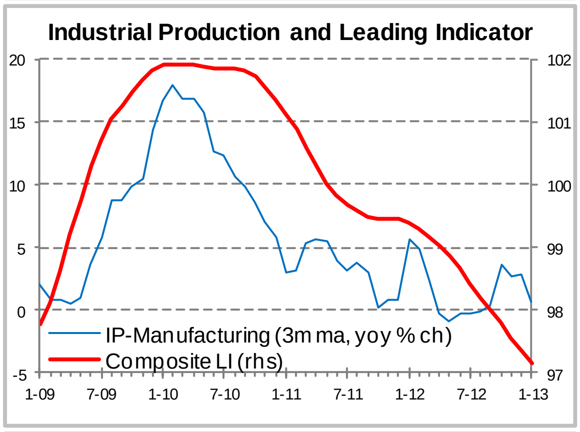
***Key message**: The Indian economy will continue to run at a sluggish pace this year as private consumption, the main driver of growth, remains weak together with the gloomy investment outlook.*

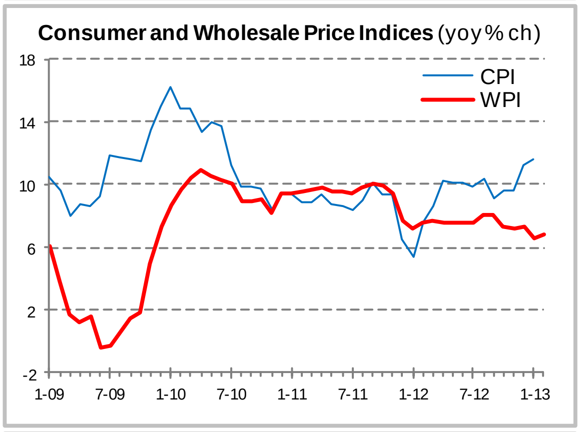
- The Indian GDP slowed to its lowest pace in almost three years in Q4 12 and forward looking indicators point to continued slack also in Q1 13 (the OECD CLI is steadily pointing downwards with no hint of a turnaround soon).
- At the roots of this poor performance there are a number of factors: the manufacturing sector remains weak showing no clear sign of rebounding; the agricultural sector has suffered an erratic monsoon season which has negatively impacted on income formation; the government has pulled back on public spending in H2 12 in a bid to limit the fiscal deficit – and is set to keep going down the way of fiscal consolidation amid further timid structural reforms; exports have fallen in Q4.
- Given slowing credit growth, dampening households' consumption and languishing investment, on the one hand, and a softening in core inflationary pressures, on the other hand, the Reserve Bank has finally delivered two consecutive interest rate cuts (in January and in March, for a cumulative 50bp). The Reserve Bank decision in March came also following a positive assessment of the 2013/14 budget brought down by end-February which outlined a credible fiscal consolidation roadmap, albeit somewhat ambitious.
- The Bank remains, however, still very vigilant on price dynamics: as a matter of fact, while wholesale prices, the primary inflation gauge, have slowed down, the new CPI index is still running at double digit rates.

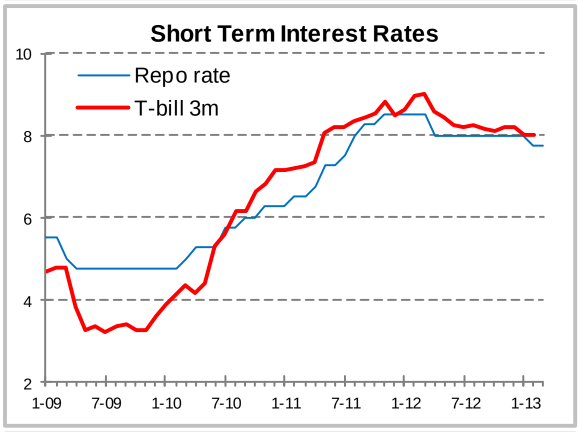
INDIA

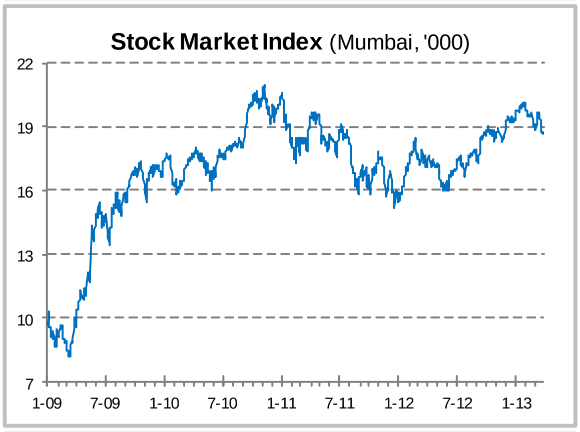


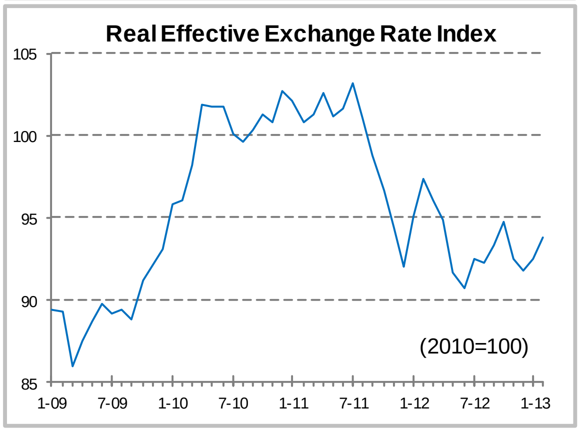


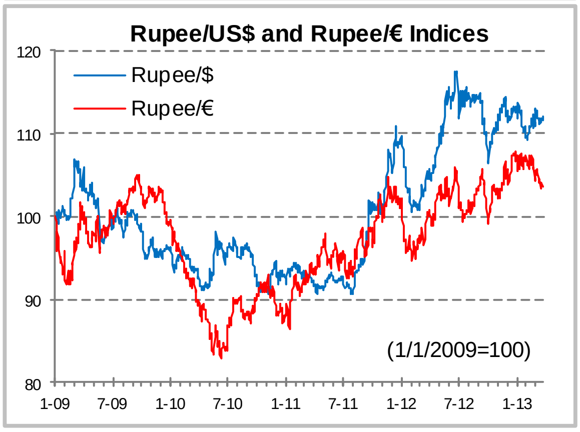












Sources: Reserve Bank of India, Office of Economic Advisor, Labour Bureau, Statistics India, BIS, daily press

CHINA

Real Indicators*	2010	2011	2012	Latest
GDP	10.4	9.3	7.8	7.9 Q4
Industrial Production	15.3	13.7	10.0	9.9 Feb
Consumer Prices	3.3	5.4	2.7	3.2 Feb
Producer Prices	5.5	6.0	-1.7	-1.6 Feb
Trade Balance (US$bn)	254.2	245.5	325.3	230.7 Q4°
as a percentage of GDP	4.3	3.4	4.0	2.8
Real Effective Exchange Rate Index§	100.0	102.5	108.6	113.7 Feb

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

Financial Indicators				
1Y Lending Rate	5.4	6.4	6.3	6.0 Feb
Stock Exchange Index (Shanghai) (% ch)*	3.0	-5.6	-16.8	4.2 26/03/13**

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

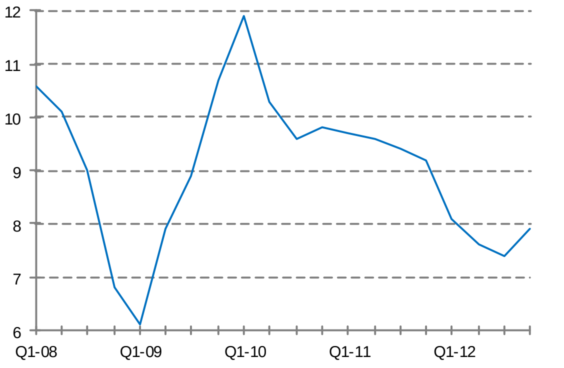
Sources: National Bureau of Statistics, OECD, EIU, People's Bank of China, daily press

***Key message**: The economy seems set to regain momentum, although at subpar rates by China's standards, but there are still doubts it is out of the woods. As inflation is accelerating the government is once again torn between taming price dynamics and propelling growth.*

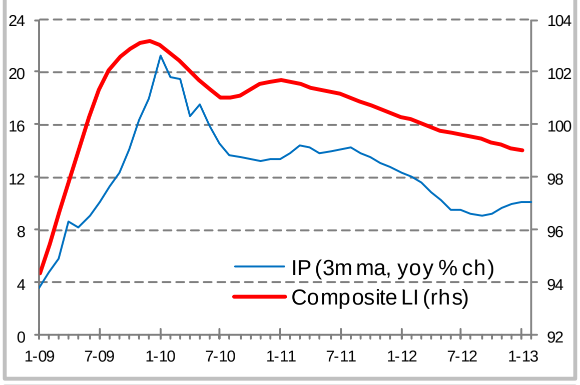
- GDP growth rebounded slightly in Q4 12 hinting that the worst may be over and, most importantly, that a hard landing has been avoided. The end of the slowdown was primarily the result of supportive policy interventions (both fiscal and monetary) which spurred infrastructure investment and held up private consumption.
- In this respect, looking at 2012 as a whole, growth was finally more balanced with the consumption contribution outstripping investment as the latter slowed down markedly.
- Doubts remains, however, on the strength of the recovery. Industrial production is regaining speed albeit at a relatively subdued pace and both manufacturing and non-manufacturing PMIs are languishing (the former retreating back very close to the threshold level of 50 in February). Most worryingly, the OECD CLI shows further deteriorating conditions ahead.
- Inflation picked up in February. While non-food price inflation remains at bay, overall price dynamics continue to be hostage of very volatile food prices, given the large weight of food in the consumer price index basket (32% compared, for instance, with 15% in the US).
- Given inflation's fears and localised housing overheating, monetary policy is set to remain cautious on a easing stance.

CHINA

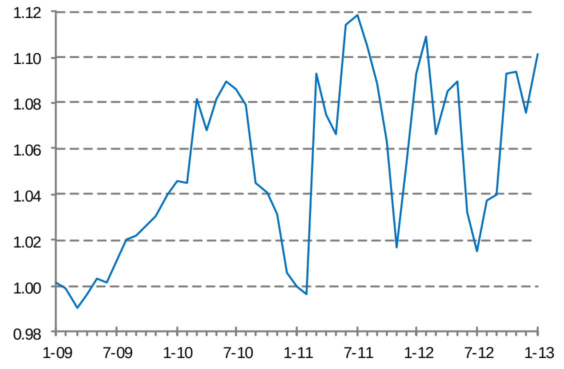
Real GDP (yoy % ch)



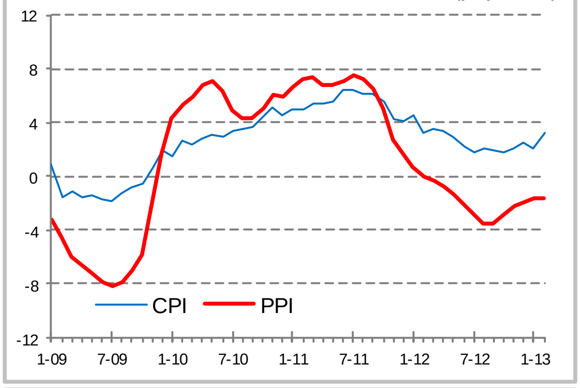
Industrial Production and Leading Indicator



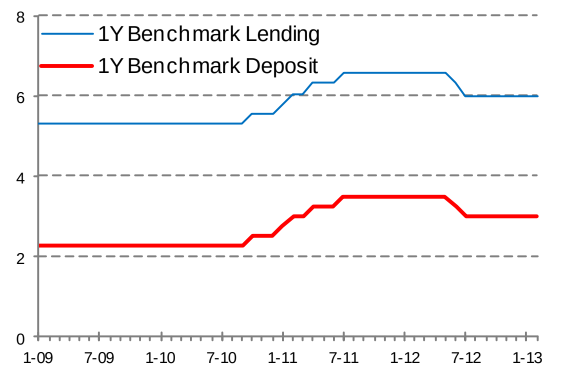
Consumer Confidence Indicators (sa)



Consumer and Producer Price Indices (yoy % ch)



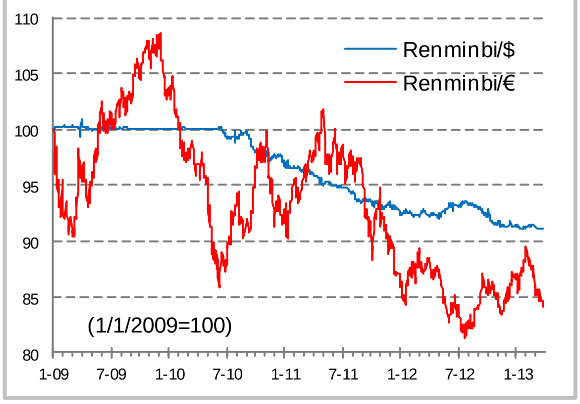
Short Term Interest Rates



Stock Market Index (Shanghai, composite index,'000)

Real Effective Exchange Rate Index

Renminbi/US$ and Renminbi/€ Indices



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

KAZAKHSTAN

Real Indicators*	2010	2011	2012	Latest
GDP	7.3	7.5	5.0	4.5 Q4
Industrial Production	10.0	3.5	0.5	1.1 Feb
Consumer Prices	7.1	8.3	5.2	7.0 Feb
Producer Prices	25.3	27.3	3.5	3.0 Jan
Unemployment Rate (%)	5.8	5.4	5.3	5.3 Q4
Current Account Balance (US$bn)	1.8	13.6		10.2 Q3°
as a percentage of GDP	1.2	7.2		5.1
Real Effective Exchange Rate Index§	107.4	106.8	112.4	111.3 Jan

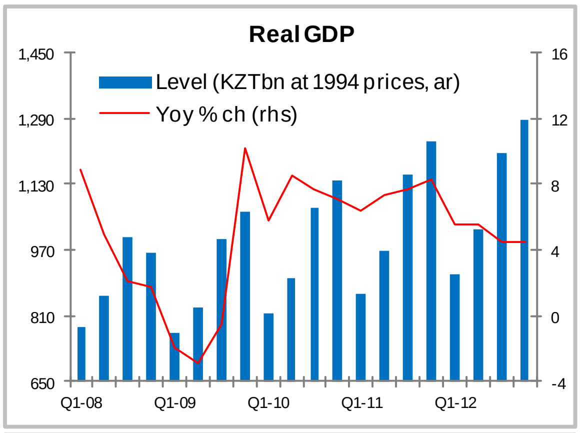
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2000=100

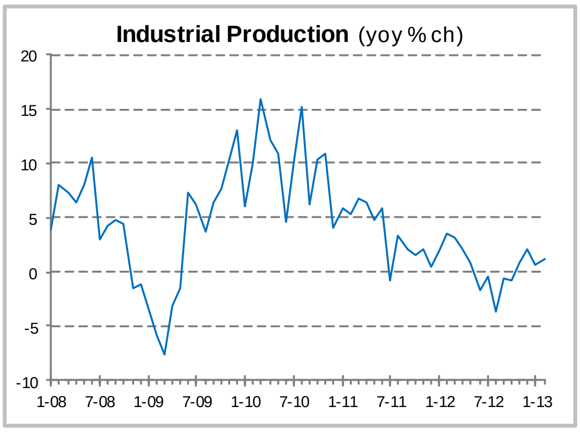
Financial Indicators	2010	2011	2012	Latest
Refinancing Rate (end of period)	7.0	7.4	6.1	5.5 Feb
Short Term Interest Rate pa (<1 year)	1.6	1.3	1.6	1.7 Feb
Exchange Rate Tenge/$	147.4	146.7	149.1	150.5 Feb

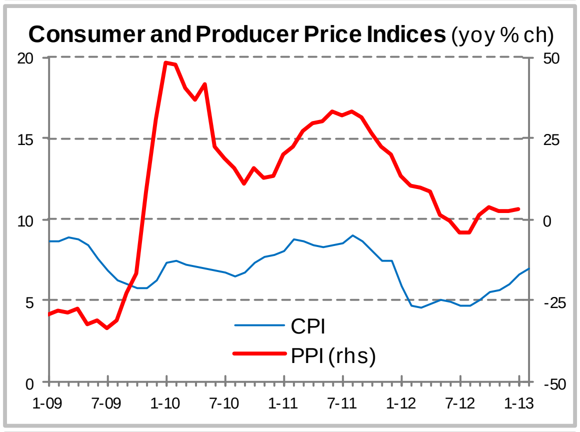
Sources: National Bank of Kazakhstan, EIU, IMF, Interstate Statistical Committee of the CIS

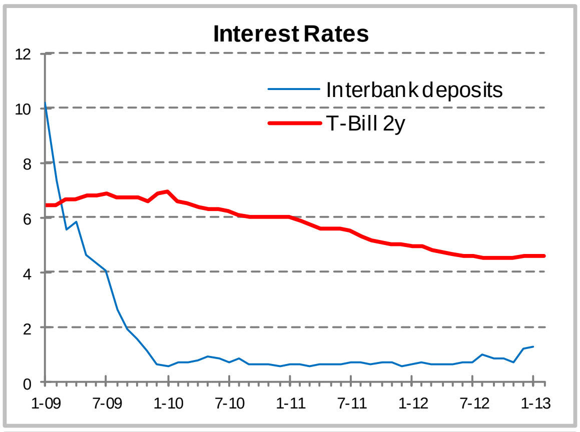
***Key message**: The economy has lost considerable momentum last year but there are early indications that some traction will be regained in the coming months. Risks related to the still problem-ridden banking sector persist while inflation is worryingly accelerating.*

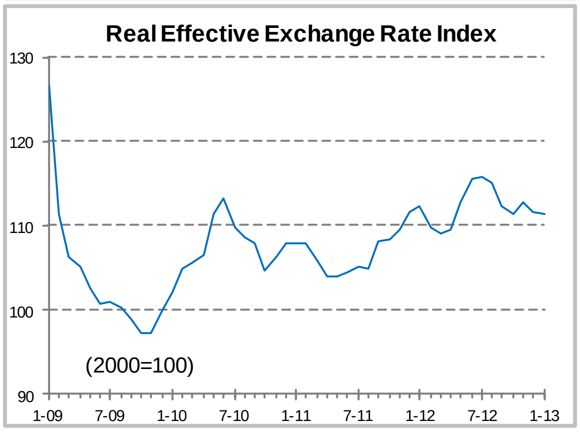
- Q4 GDP data confirm that the Kazakh economy has kept slowing down in the final part of the year. Economic momentum weakened in H2 12 primarily on lower oil extraction and a weak performance by the agricultural sector. A severe drought in 2012 hit the country resulting in a more than halved grain harvest.
- Providing more normal weather conditions prevail this year, a favourable base effect should bring about a statistical boost to GDP growth. In addition, the long-delayed oilfield in Kashagan is set to come on stream later this year, barring further postponements.
- Inflation is accelerating driven primarily by rising food prices, which are the consequence of last year poor harvest. As a matter of fact, the price of flour was 12.4% higher in February than a year earlier. However, the government's investment in grain stocks in recent years has so far limited the impact of the poor harvest on domestic wheat prices.
- The banking sector continues to be plagued by bad assets problems, which highlights the risk of further re-intensification of financial unrest and refinancing problems. In this context credit growth remains subdued, while the resurgence of inflation does not allow for further policy rate cuts.

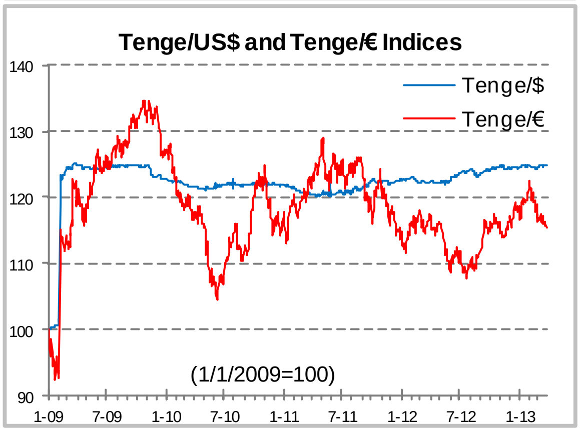












Source: National Bank of Kazakhstan