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Social and Economic
Studies Office

Economic Profile in ITC Group Countries

N. 3 – November 30th 2010

Highlights

Global Economic Conditions:

- Real Indicators
- Financial Indicators

Countries:

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

Key to Abbreviations

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

Based on all information up to November, 30th 2010

Written by Claudio Fortuna, Chiara Rubino, and Federico Giovannini; database management by Claudia Santoni

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Highlights

- As widely forecast, a new mild slowdown of the world economy is unfolding, following the changing stance of fiscal policies in many countries and given that stocks have been widely replenished.
- As a matter of fact, not only GDP growth has decelerated sensibly both in the US and in Europe but also other indicators such as industrial production and CLIs (composite leading indicators) point to softening activity.
- Signs of a loss of momentum come also from some major emerging countries, on the back of less bullish export that can hardly be matched by increasing domestic demand.
- The threat of financial crisis has re-surfaced in Europe together with the difficulties of the Irish banking system. After the Greek crisis, new rescue intervention has been timely set up, which should help to appease financial market nervousness.
- However, the situation remains far from stabilised and reveals that more bold action should be taken in order to prevent contagion risks from materialising. Fears are now focused on Portugal, but the major threat is represented in perspective by Spain, given its weight and role within the euro system.
- As a matter of fact, all financial markets are in a deep turmoil, given worsening macroeconomic prospects on a world scale, diverging economic policies and, last but not least, potential far reaching consequences of the Irish crisis.
- The euro has weakened again, trading around 1.31 *vis-à-vis* the dollar. This appears in contradiction with the US/Eurozone respective monetary stance as well as with the continuing lucklustre outlook for the US economy. Also looking ahead, high currency volatility may thus be expected.
- In the interest rates domain, some inconsistencies are also apparent in the longer maturities segment. As a matter of fact, Bund yields have been recently slightly recovering on the back of increasingly buoyant German prospects. On the other hand, the US Treasuries have shown a parallel move which however could reflect growing uncertainties over the prospect of keeping in the medium term inflation under check in an environment of aggressive money creation by the Fed.
- Also stocks show uneven trends across different areas and markets. In the US the rebound since the summer is to be related to the relatively good economic performances of listed companies. In the euro zone corporate profit perspectives are much gloomier which is weighing down on price dynamics. Also among the emerging markets some down-shift has been observed of late, further to the overall deterioration of short term expectations, as well as growing global financial instability.

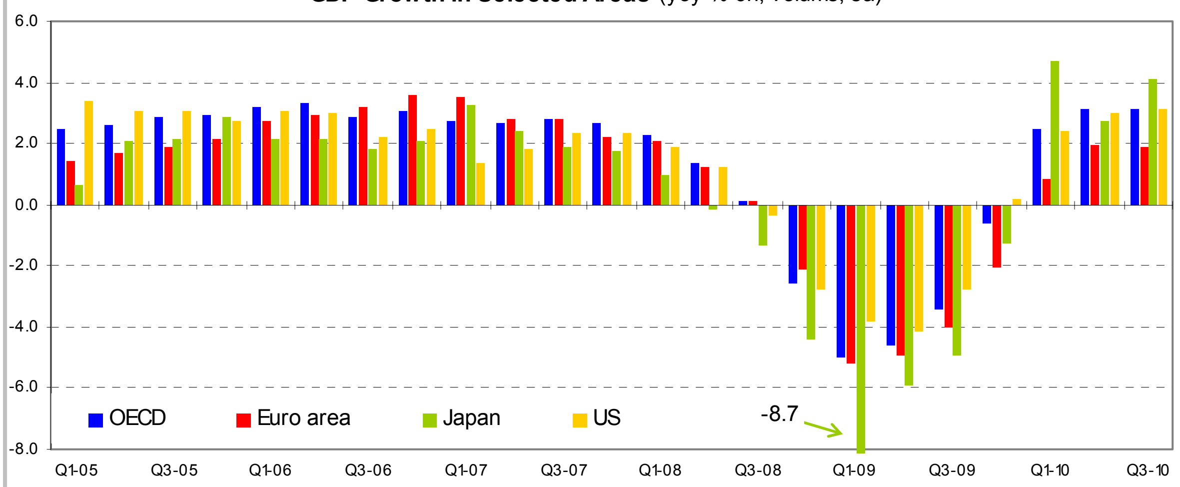
GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)		2007	2008	2009	Latest
GDP:	OECD	2.7	0.3	-3.4	3.1 Q3
	Euro Area	2.9	0.5	-4.1	1.9 Q3
	US	1.9	0.0	-2.6	3.1 Q3
	Japan	2.4	-1.2	-5.2	4.1 Q3
Inflation:	US	2.9	3.8	-0.4	1.2 Oct
	Euro Area	2.1	3.3	0.3	1.9 Nov
Oil Price Level	(Brent, $/barrel)	72.7	97.7	61.9	83.7 Oct
	(yoy % ch)	11.2	34.3	-36.7	14.8

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

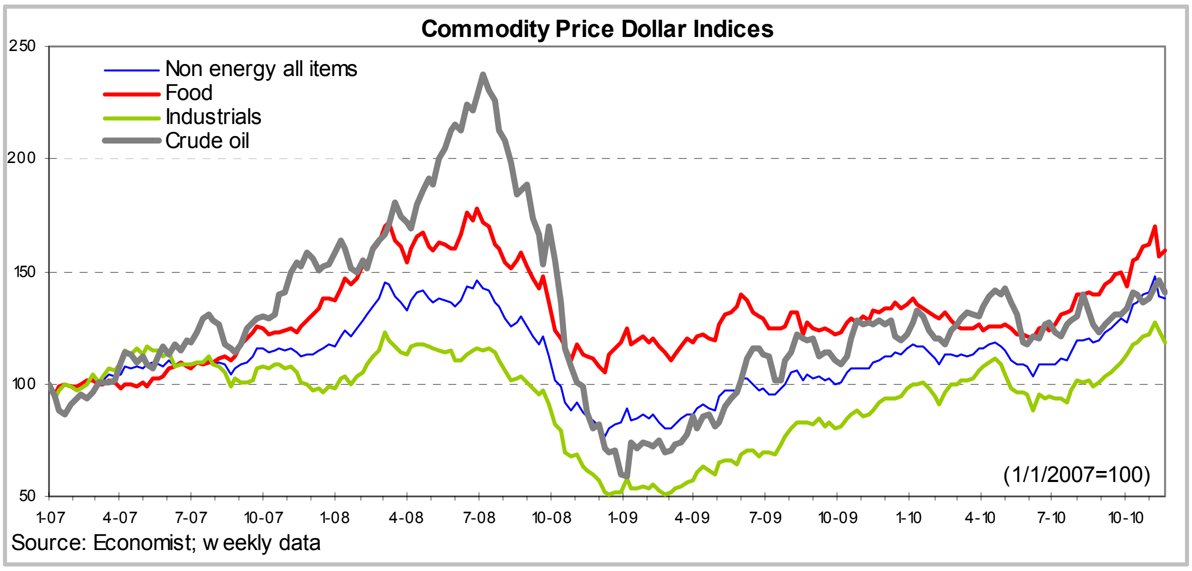
- The world economy has continued to recover thus far this year but progress is becoming more hesitant and downside risks are piling up, particularly in the US and the euro area. According to the IMF, world GDP expanded by 5.3% yoy in H1 10 and, as a slowdown is unfolding, growth for the full 2010 will be a lower 4.8%. The unwinding of exceptional fiscal and monetary stimula has in many cases already started and will progressively spread to almost all economies while the inventory cycle will be less supportive of growth.
- Leading indicators are clearly pointing to weaker momentum ahead and the risks of a double-dip in selected economies has somewhat risen. Albeit the emerging economies have re-entered a path of solid expansion they are, however, not yet able to drive the global economy.
- The crisis has left state coffers, primarily in the euro area and in the US, unsustainably full of debts. In this respect, the euro area is moving with strong determination on the way of fiscal consolidation also because of the need to reassure markets on public debt sustainability (and thus prevent the ongoing Irish financial crisis spreading to other countries). The risk, however, is that the unfolding austerity may derail a still fragile recovery.
- Despite the massive liquidity injection to cure the global crisis inflation remains subdued in most advanced countries, while some emerging countries have seen accelerating price dynamics.
- Commodity prices have spiked in recent months easing marginally in recent weeks while oil prices have displayed large volatility but lower increases. Food and industrial prices shot up by 42% and 39% between their relative peak lows and highs in the period June-November. While industrial commodity prices have been sustained by strong activity levels across the world, food prices (in particular cereals) have been propped up by a number of adverse shocks.

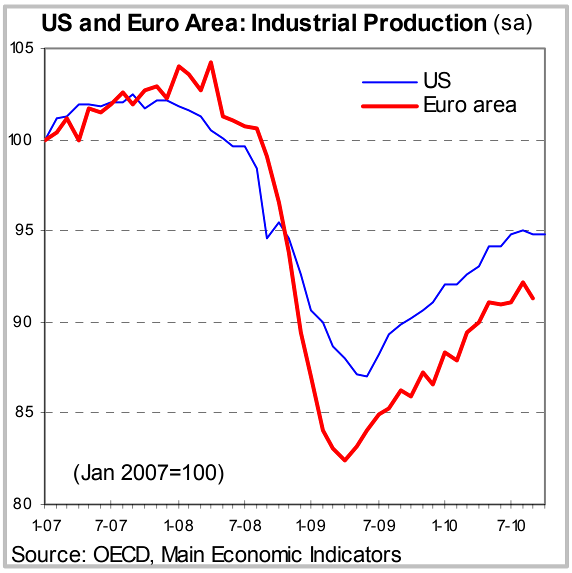
GDP Growth in Selected Areas (yoy % ch, volume, sa)

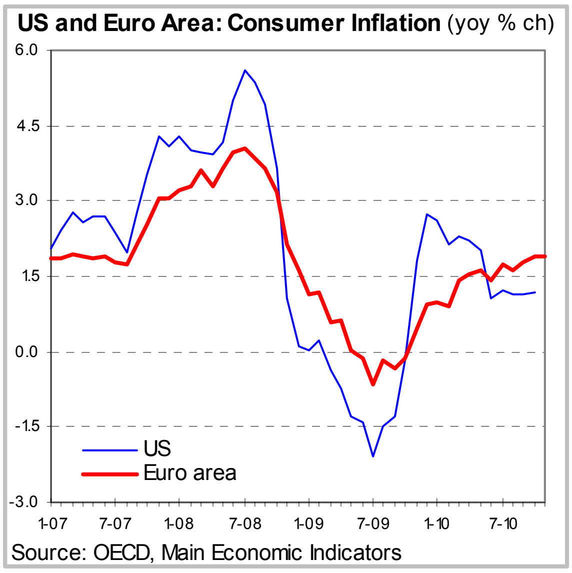


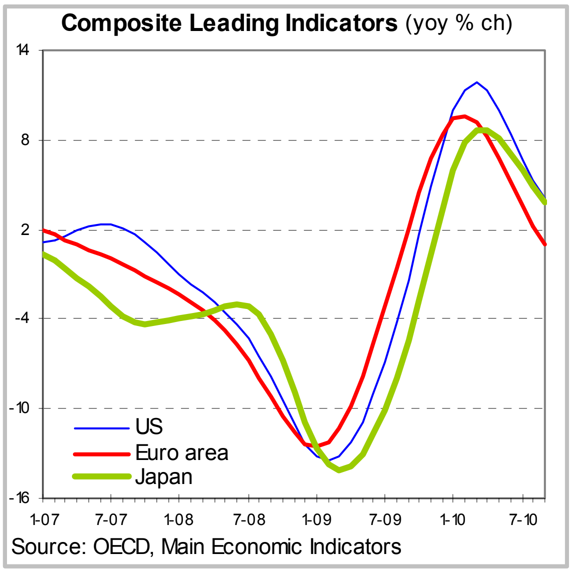
Source: OECD, Main Economic Indicators

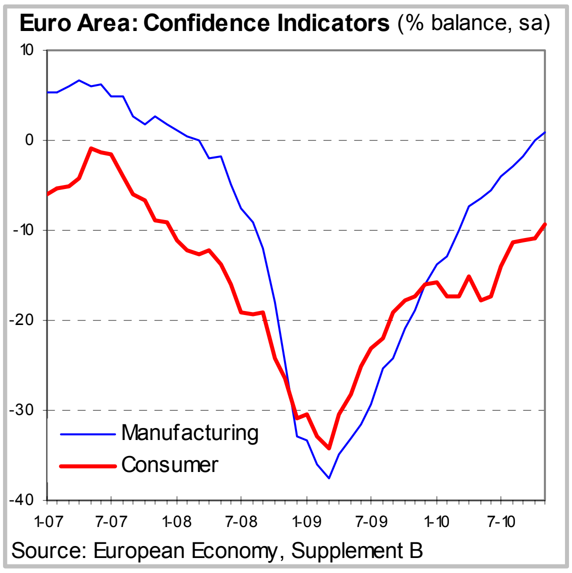
REAL INDICATORS











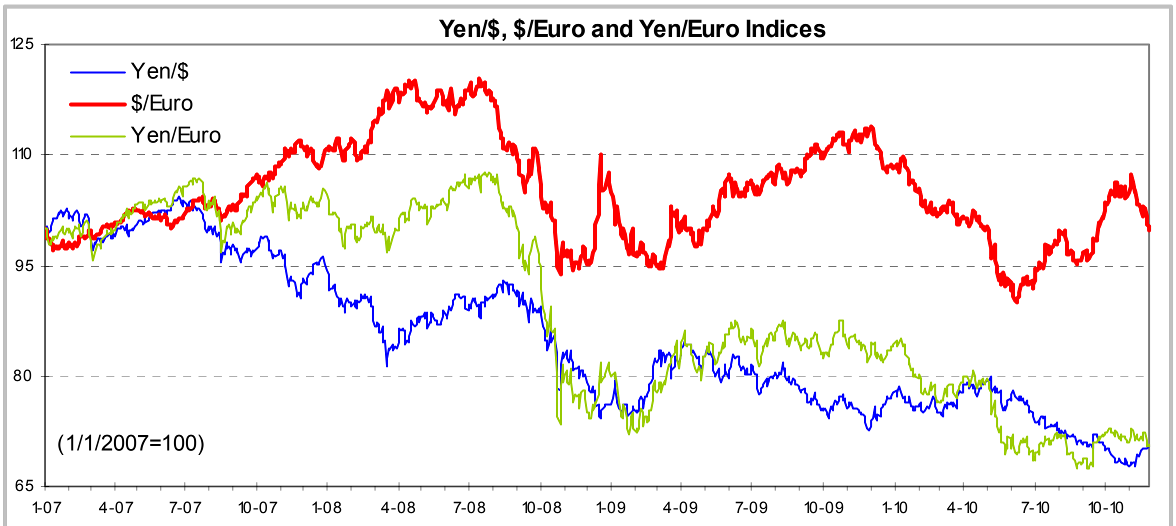
GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2007	2008	2009	Latest
Dollar/Euro Exchange Rate	1.370	1.471	1.394	1.317 *
Policy Rates (end of period):				
- US (target for federal funds)	4.25	0.0/0.25	0.0/0.25	0.0/0.25 16/12/08
- Euro Area (repo rate)	4.00	2.50	1.00	1.00 13/05/09
Long Term Interest Rate (10y government bonds, year average):				
- US	4.63	3.66	3.26	2.54 Oct
- Euro Area	4.33	4.36	4.03	3.44 Oct

* Average from 4/1/2010 to latest available data

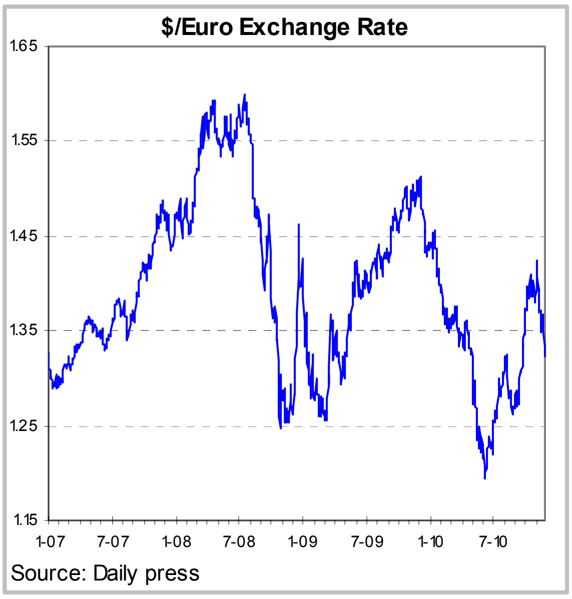
Sources: European Central Bank and Federal Reserve Bank

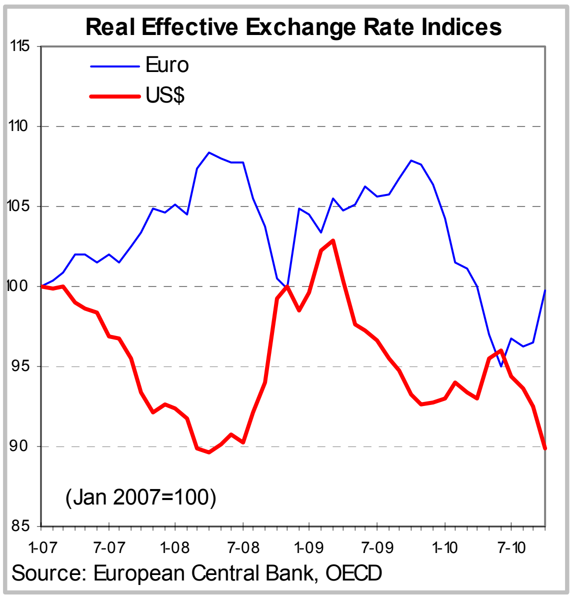
- As monetary tightening has set in in some emerging economies (primarily China and India), two main issues are currently shaping monetary and financial developments across the world: first, the so-called "currency war" and, second, the euro area sovereign debt crisis. The large liquidity currently available around the world has targeted successful emerging economies as well as selected advanced economies (such as Japan), while China is only marginally allowing an appreciation of its currency. In turn, the US are pushing forward monetary policies (see below) to devalue the US$. The euro, in between, is prey of a wild volatility which is mostly related to the sovereign debt crisis in its peripheral countries.
- The abysmal state of the Irish banking system and the scarcely credible ability of the Irish state to guarantee virtually the entire balance sheets of its financial institutions has finally forced the government – in fact, following intense pressure by the EU – to seek for support under the joint IMF/EU emergency vehicle and fund. The bail-out deal has been recently finalised and will total around €85bn. International pressures on the Irish government to seek help aimed at avoiding a contagion effect but speculations about Portugal show that further sovereign crises may erupt.
- As widely expected, the Fed announced on November 4th, a new round of quantitative easing, dubbed QE2, in an attempt to stimulate a job-creating growth momentum at a time when the previous monetary stimula are wearing off. The objective is to buy an additional US$600bn worth of US Treasuries in monthly instalments of about US$75bn until the end of the second quarter of next year. The wisdom and effectiveness of QE2 has been - and is - widely debated as the side-effect of these successive massive liquidity injections could be a surge in inflation sooner or later. While on the wake of speculation concerning the plan the US$ weakened, the immediate effect of the announcement of its implementation terms has been, paradoxically, a stronger dollar, but this was more related to the Irish crisis and hence to euro weakness.

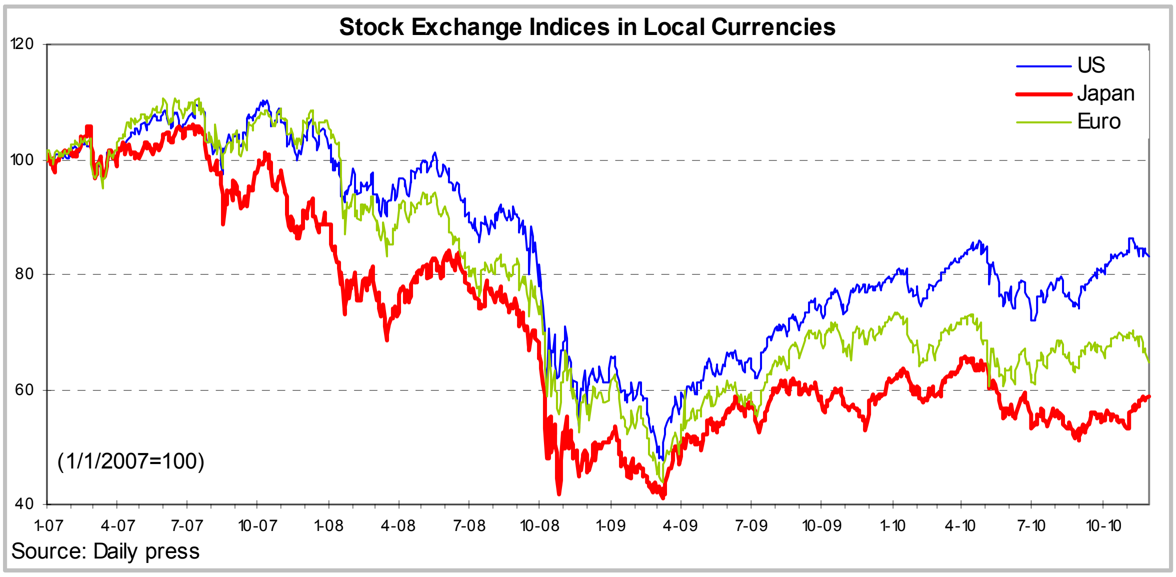


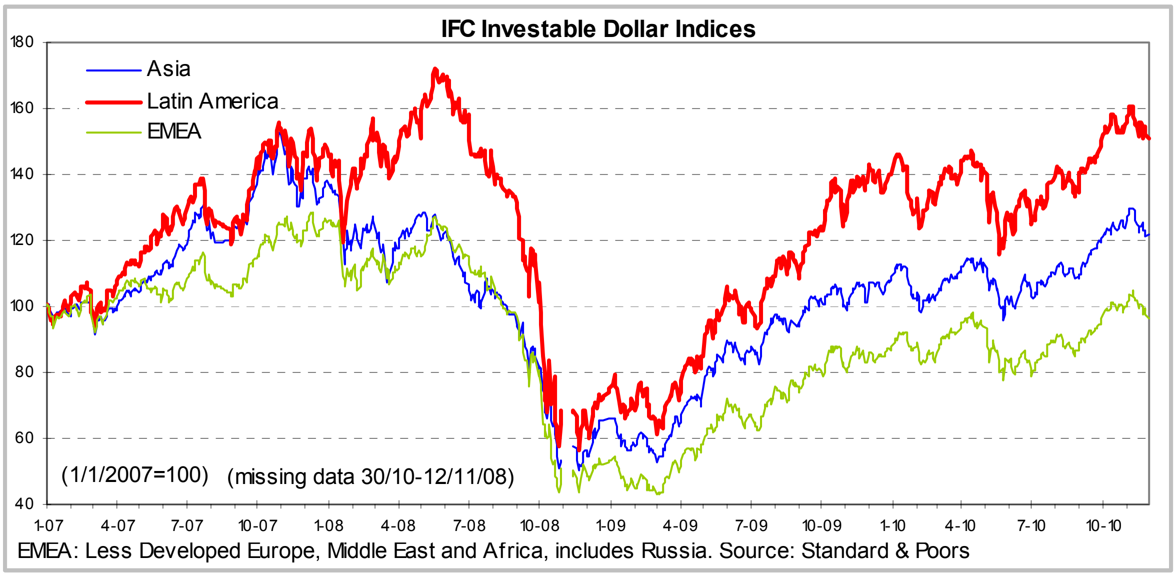
Source: Daily press

FINANCIAL INDICATORS

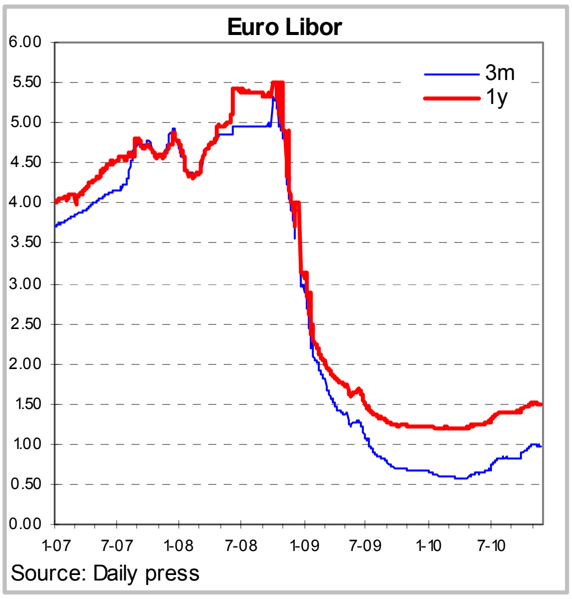


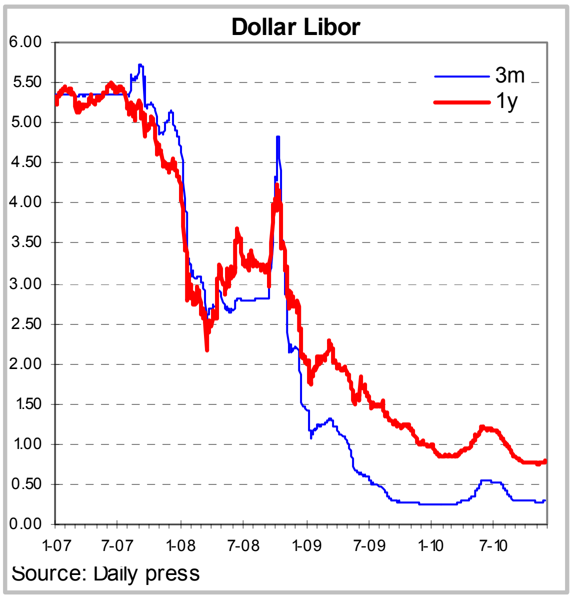


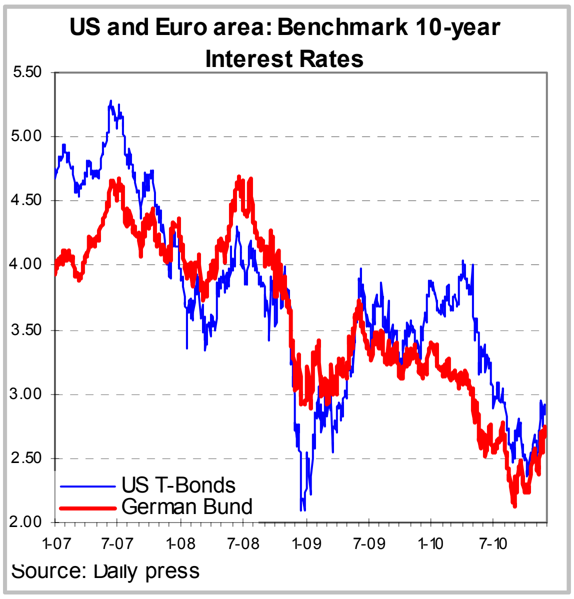


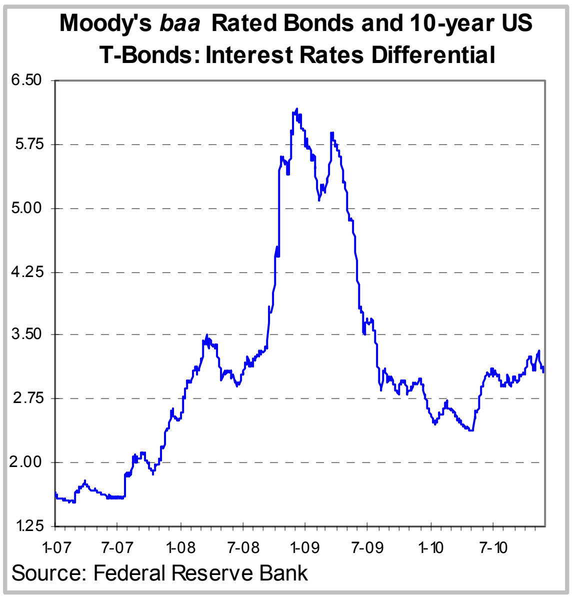


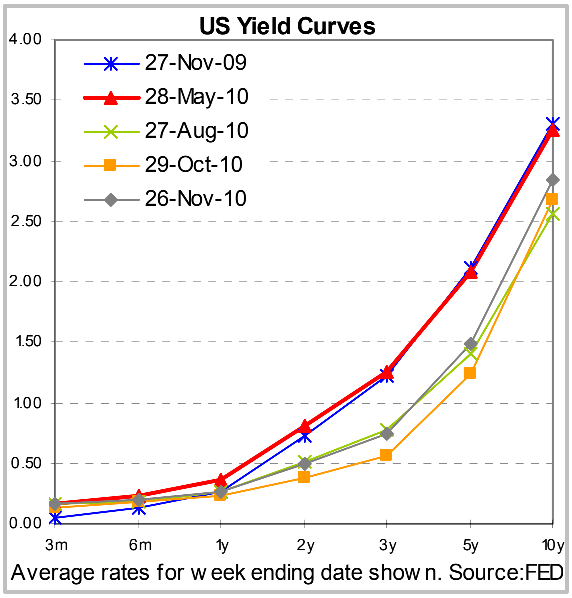
FINANCIAL INDICATORS

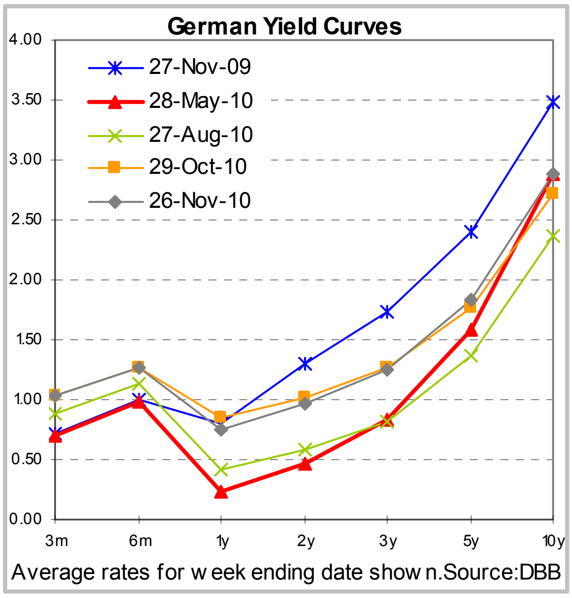




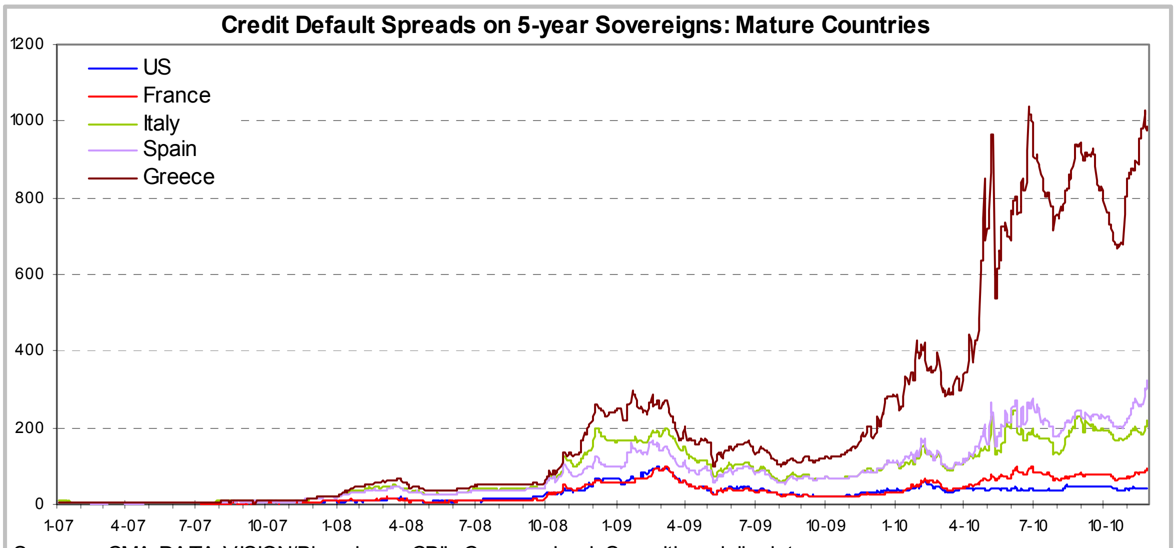




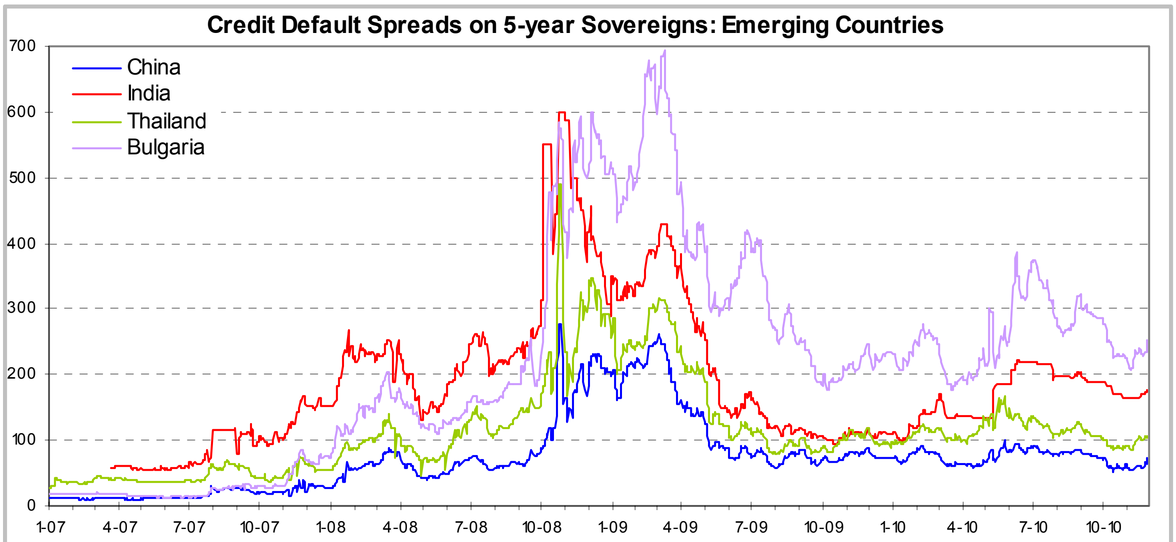




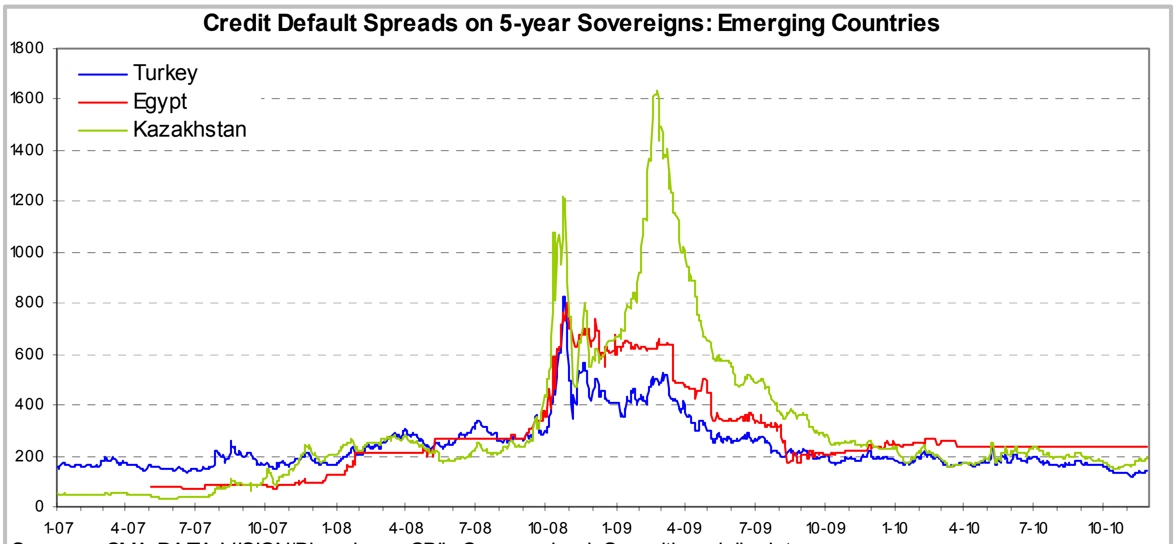
FINANCIAL INDICATORS



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



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



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

UNITED STATES

Real Indicators*	2007	2008	2009	Latest
GDP	1.9	0.0	-2.6	3.1 Q3
Industrial Production	2.7	-3.3	-9.3	0.0 Oct**
Construction Investment	-6.1	-8.8	-17.0	-7.9 Q3
Consumer Prices***	2.9	3.8	-0.4	1.2 Oct
Producer Prices – Finished Goods***	3.9	6.3	-2.6	4.3 Oct
Hourly Earnings – Manufacturing***	2.7	2.8	2.7	1.9 Oct
Standardised Unemployment Rate (%)	4.6	5.8	9.3	9.6 Oct
Current Account Balance (US$bn)	-718.1	-668.9	-378.4	-430.9 Q2°
- as a percentage of GDP	-5.1	-4.7	-2.7	-3.0
Real Effective Exchange Rate Index§	94.6	90.5	94.3	86.7 Oct

* % yoy ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2005=100

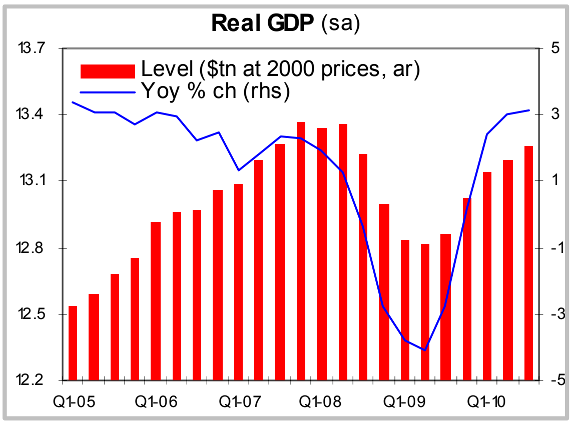
Financial Indicators				
Short Term Interest Rate pa (3m CD)	5.27	2.97	0.55	0.27 Oct
Long Term Interest Rate pa (benchmark 10y)	4.63	3.66	3.26	2.54 Oct
Stock Exchange (S&P 500) Index (% ch)*	12.7	-17.2	-22.5	5.8 29/11/10**

* Average over year; ** % change on 31/12/09

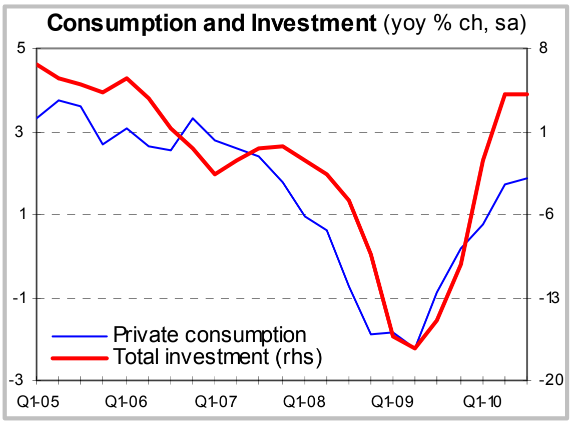
Sources: OECD, FED, Bureau of Economic Analysis, Bank of International Settlements (BIS), daily press

- The US economy is on a weakening trend following brisk growth in late 2009 and early 2010. National accounts data for Q3 were, nevertheless, slightly stronger than expected. GDP rose up to 0.6% qoq from the previous quarter 0.4% qoq driven by domestic demand with a continuing positive and negative contribution, respectively, from inventories and net export. Notably, household consumption accelerated to 0.7% qoq in Q3 from the previous quarter 0.5% thanks to still buoyant purchases of durable goods (+1.8% qoq) and despite a significant deceleration in real disposable income formation (+0.2% qoq down from the previous quarter +1.4% qoq). This latter figure reflects the diminishing effect of the fiscal stimulus and has in turn translated into a fall of the savings rate (5.8% from the 6.2% in Q2) while indebtedness remains high.
- Nevertheless, the fiscal stimulus remains substantial with public consumption adding 0.2% to overall Q3 qoq GDP growth (same as in Q2). A degree of uncertainty concerns future fiscal policy as a raft of temporary tax cuts should expire next year with the economy having to digest an estimated amount of over $200bn in tax increases (about 1.5% of GDP). The government is currently pondering whether extending most of these cuts for another year while a further stimulus plan may turn out not to be viable given the gigantic size of fiscal imbalances.
- Another serious threat to the recovery is the pending expire of the emergency unemployment insurance program which will deprive more than 1mn unemployed workers of their benefits if the government does not act. With five unemployed workers for each job opening most of them would remain income-less. As a matter of fact, payroll job gains are averaging about 100,000 per months while around 150,000 would be needed to keep the unemployment rate stable. The latter is thus at risk to break the 10% threshold soon.
- On the corporate side, investment has decelerated, though remaining robust, from 6% qoq in Q2 to 3% qoq in Q3 with investment in equipment still leading the expansion and residential investment plunging back in negative territory (-7.7% qoq) as the housing sector remains in the doldrums. The good news comes from corporate profits which have completely recovered from the recession providing sufficient margins to invest and hire more aggressively.
- The latest high frequency indicators offer mixed signal with the industrial production stagnating, financial conditions slightly easing, durable goods orders sew-sawing, strong retail sales, consumer confidence weak but moving upwards, and relatively strong manufacturing sentiment. A reversal of the restocking cycle seems also imminent. Growth prospects are thus uncertain and are increasingly dependent on policy choices in both the fiscal and the monetary/financial domain.

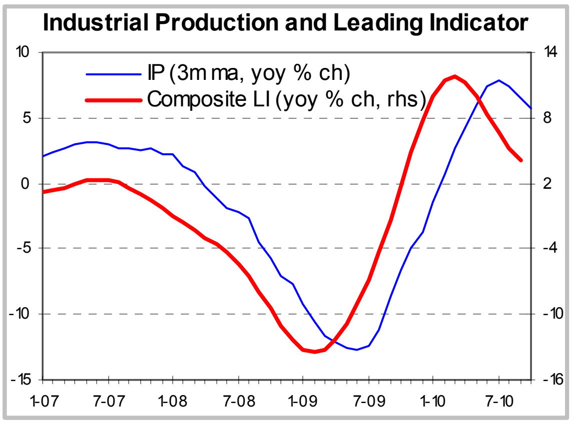
UNITED STATES



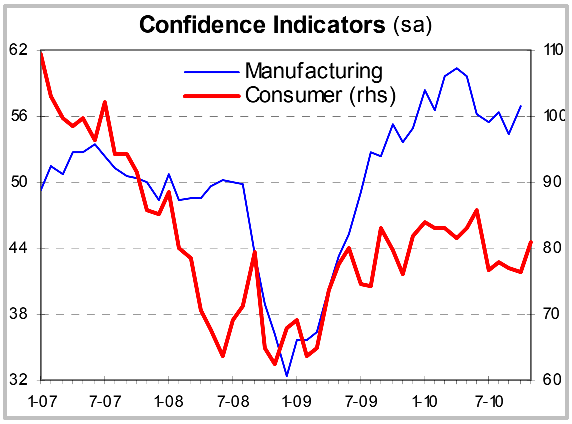
Real GDP (sa)



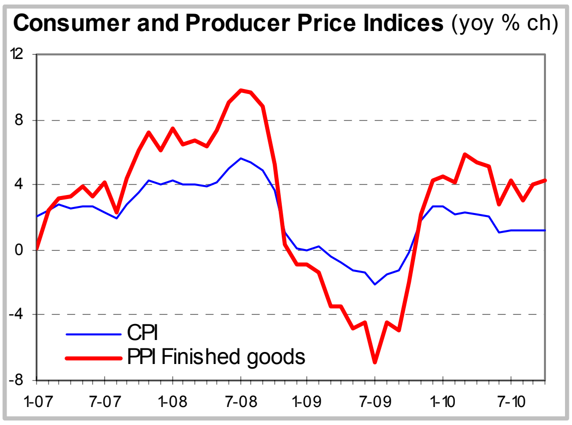
Consumption and Investment (yoy % ch, sa)



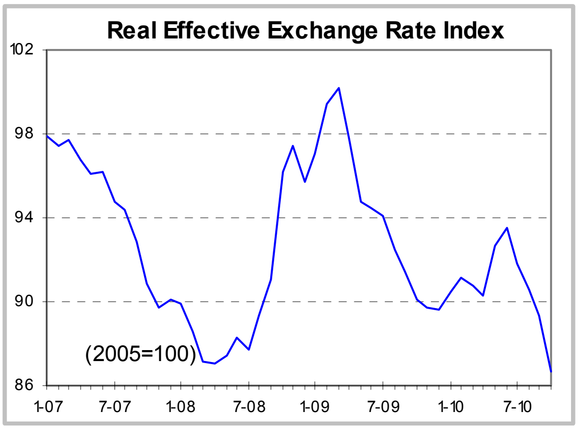
Industrial Production and Leading Indicator



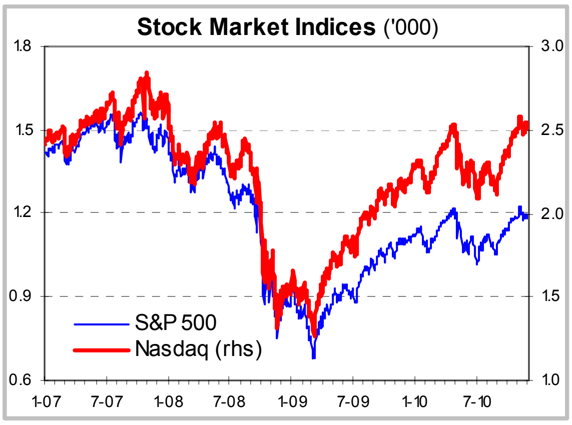
Confidence Indicators (sa)



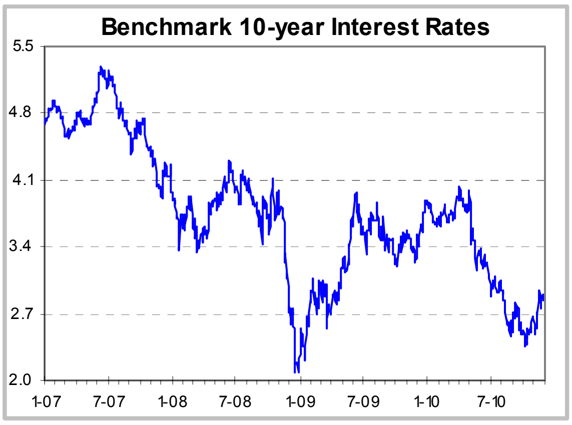
Consumer and Producer Price Indices (yoy % ch)



Real Effective Exchange Rate Index



Stock Market Indices ('000)



Benchmark 10-year Interest Rates

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

CANADA

Real Indicators*	2007	2008	2009	Latest
GDP	2.2	0.5	-2.5	3.4 Q2
Industrial Production	-0.8	-5.6	-10.7	0.5 Aug**
Construction Investment	2.9	2.2	-8.7	6.3 Q2
Consumer Prices***	2.1	2.4	0.3	2.4 Oct
Producer Prices - Manufacturing***	1.5	4.3	-3.5	2.3 Oct
Hourly Earnings - Manufacturing***	5.4	1.7	-5.0	8.6 Aug
Standardised Unemployment Rate (%)	6.0	6.1	8.3	7.9 Oct
Current Account Balance (Can$bn)	12.8	6.9	-43.5	-43.4 Q2°
as a percentage of GDP	0.8	0.4	-2.8	-2.8
Real Effective Exchange Rate Index§	109.0	106.1	100.9	109.8 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2005=100

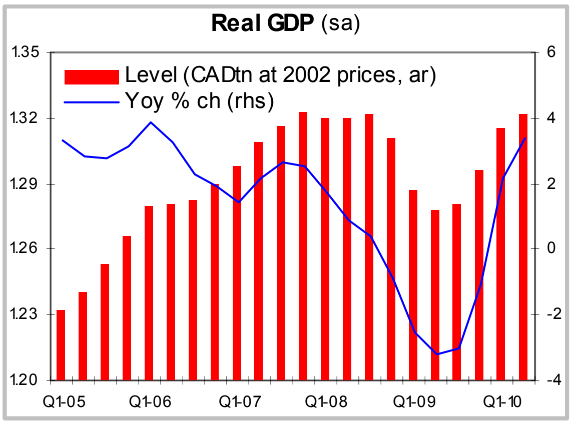
Financial Indicators	2007	2008	2009	Latest
Short Term Interest Rate pa (o/n)	4.34	2.96	0.39	1.00 Oct
Long term interest rate pa (benchmark 10y)	4.27	3.60	3.23	2.78 Oct
Stock Exchange (TSE) Index (% ch)*	13.8	-8.2	-18.7	9.4 29/11/10**

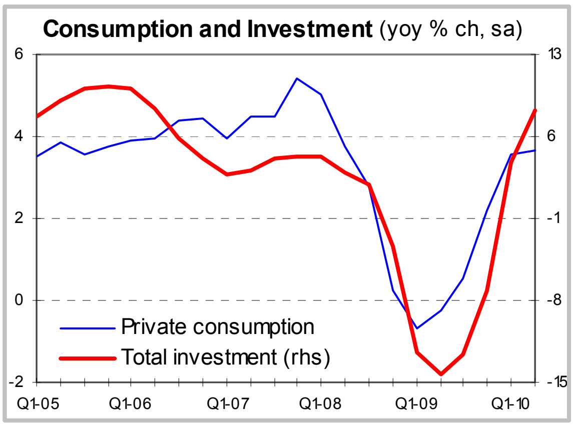
* Average over year; ** % change on 31/12/09

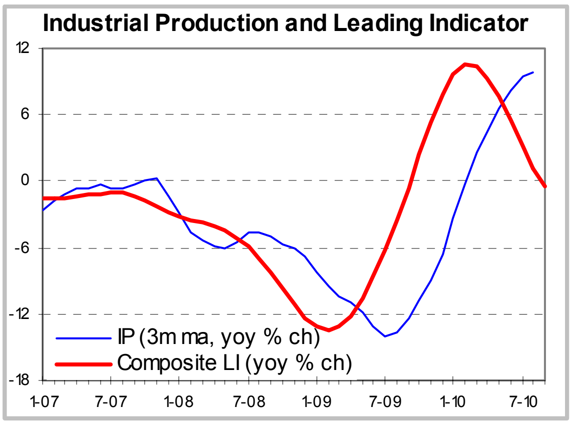
Sources: OECD, Statistics Canada, BIS, daily press

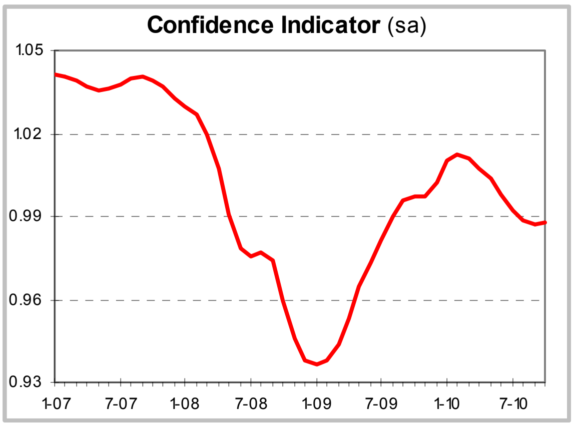
- GDP growth eased in Q2 10 and slowed from the torrid 1.4% qoq rate in Q1 to a still healthy 0.5% qoq in Q2. Growth continues to be driven by domestic demand with consumption expanding by 0.7% qoq and investment by 2% qoq.
- Indications that the economy is slowing down stem from a weakening housing market, rising consumer debt and weaker demand from the US, the latter being amplified by the strong currency.
- The surge in imports, driven by domestic demand, more than compensated the rise in exports, which, however, have slowed sensibly since the end of last year. As a result, net export dragged 0.8% from overall qoq GDP growth in Q2. In addition, the current account remained negative for the 7th consecutive quarter, an unusual condition for a commodity exporting country like Canada.
- Following strong job-creation, which brought employment back to pre-crisis levels by mid-2010, labour market improvements have stalled with the unemployment rate hovering around 8% since then.
- Inflation accelerated in October jumping by 0.7% mom, more than double the increase in September. Most of the above pressures stem from the recent implementation of the harmonized tax sales (HTS). The HTS was enforced last July and has harmonised provincial and federal sales taxes. The Bank of Canada (BoC) estimates that it will add up to 0.6% to yearly inflation measures over the next several months.
- As the economic outlook has deteriorated, the BoC has called a pause in its recent tightening process. Previously, pointing to curb the housing boom and showing increasing concern over record-high household debt (the OECD estimates debt levels being at about 145% of personal disposable income), it had raised rates three times since June, from 0.25% to 1%.
- The Canadian dollar continues to be strong supported by the interest rate differential vs the US and by solid commodity prices.
- On the fiscal front, the outlook remains uncertain. While the government has pledged to wind down its two-year stimulus plan on schedule next March, pressures are emerging in order to provide further stimulus to help creating more jobs.

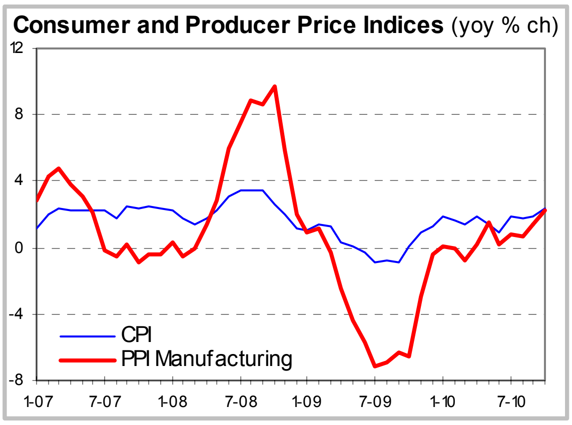
CANADA

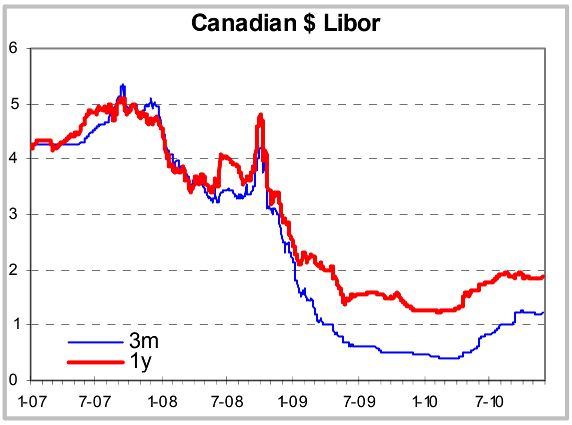


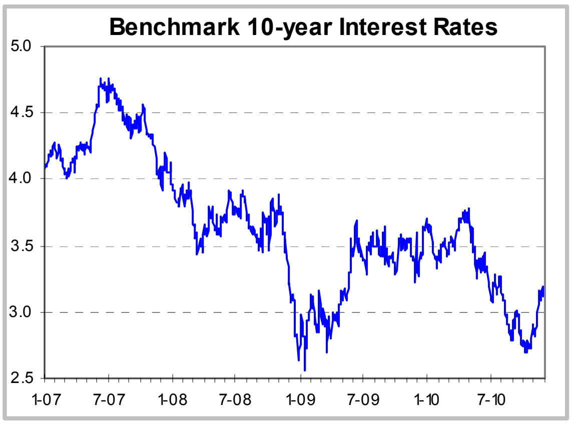


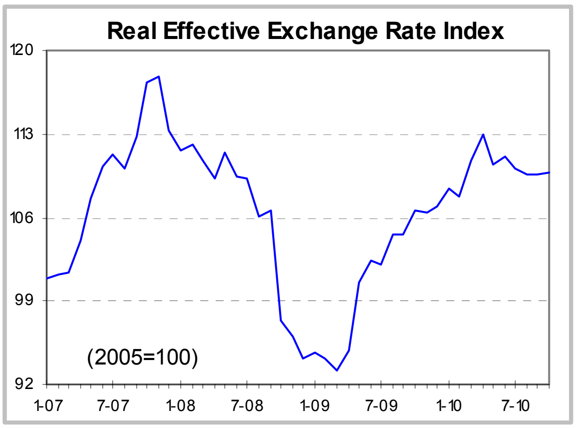












Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2007	2008	2009	Latest
GDP (wda)	2.3	0.1	-2.5	1.8 Q3
Industrial Production	1.3	-2.4	-12.3	0.1 Sep**
Construction Investment (wda)	4.2	-0.8	-5.6	-5.2 Q3
Consumer Prices - Harmonised Index***	1.6	3.2	0.1	1.8 Oct
Producer Prices - Manufactured Goods***	3.0	5.3	-7.3	4.1 Oct
Hourly Earnings - Manufacturing (*ouvriers*)***	2.8	3.1	2.1	1.8 Q2
Standardised Unemployment Rate (%)	8.3	7.8	9.5	9.8 Oct
Current Account Balance (€bn)	-18.9	-37.1	-36.8	-34.7 Q2°
as a percentage of GDP	-1.0	-1.9	-1.9	-1.8
Real Effective Exchange Rate Index§	99.8	100.4	100.4	96.9 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2005=100

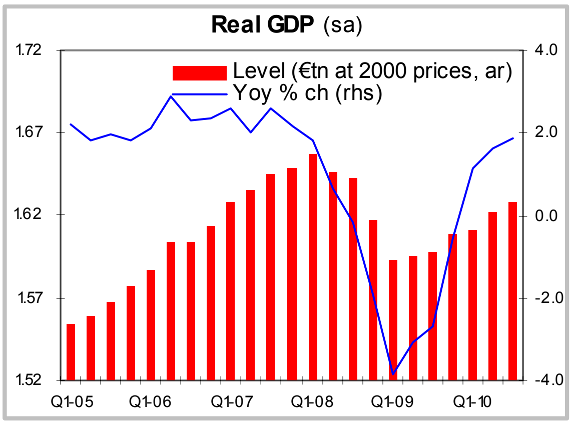
Financial Indicators	2007	2008	2009	Latest
Short Term Interest Rate pa (Euro Libor 3m)	4.28	4.64	1.23	1.00 Oct
Long Term Interest Rate pa (benchmark 10y)	4.30	4.23	3.65	2.72 Oct
Stock Exchange (CAC) Index (% ch)*	12.1	-24.2	-23.1	-7.6 29/11/10**

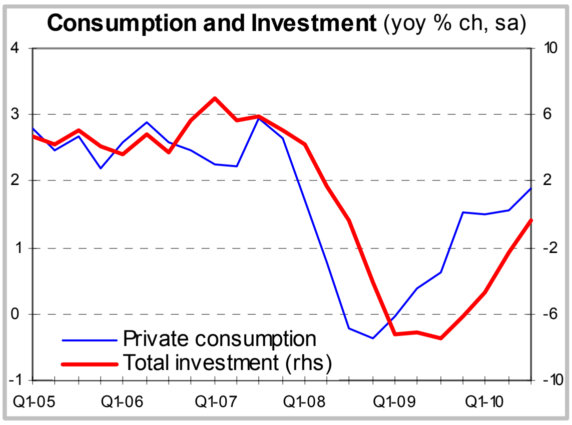
*Average over year; ** % change on 31/12/09

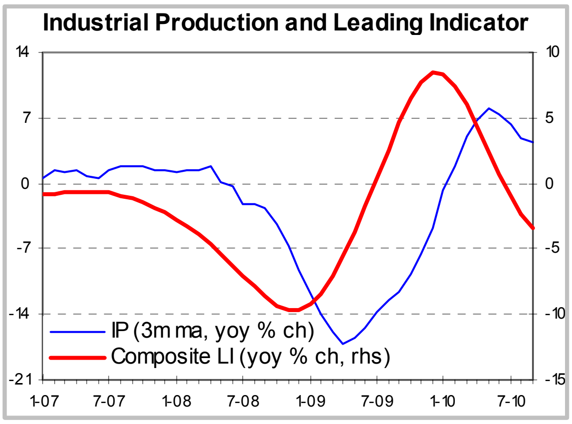
Sources: OECD, Banque de France, INSEE, BIS, daily press

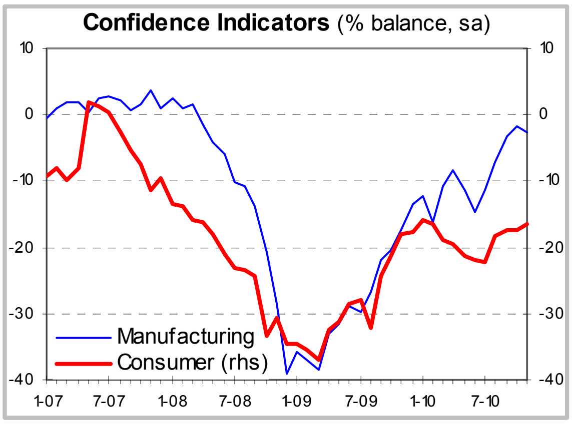
- The French economy decelerated to a still healthy 0.4% qoq rate in Q3 10 from the previous strong 0.7%. Domestic demand was the main engine adding 0.5% to total qoq GDP growth and also inventories made a positive contribution (+0.3). Due to a surge in import, on the other hand, the net export contribution turned negative (-0.5%).
- Private consumption surprised on the upside. Car purchases have in part sustained spending which was reflected in a good performance in the domestic car production industry, a welcome development after the negative impact of the phasing out of the scrappage scheme. Prospects, are, however, less favourable as unemployment remains high and there was no sign so far of a clear-cut turnaround in labour market conditions while fiscal tightening will set in next year.
- Meanwhile, investment spending, which had fallen for eight consecutive quarters from Q2 08 to Q1 10, rose in both Q2 and Q3 (+0.9% and +0.5% qoq, respectively). Encouragingly, the latest survey for the manufacturing sector shows that business leaders expect a robust recovery in investment spending next year. However, still relatively tight credit conditions and lower overall demand prospects will likely limit the pace of expansion.
- The French banking sector is heavily exposed to debt of peripheral euro countries. French banks are the biggest investors in sovereign debt from Greece, as well as other countries considered as most exposed to the risk of a sovereign debt crisis, namely Ireland, Portugal and Spain: according to the Bank for International Settlements (BIS), overall exposure of French banks to the public sectors of Greece, Ireland, Portugal and Spain totalled €76.4bn at the end of Q1 10.
- The industrial sector is losing momentum as it rose by only 0.1% mom in September after stalling in August. Indications from the purchasing managers index, however, seem to suggest that industrial production will decelerate and not experience an outright contraction.
- The draft budget for 2011 plans to reduce the fiscal deficit by a record €60bn, which in terms of GDP ratios means lowering the deficit down from an estimated 7.7% in 2010 to 6% next year. Meanwhile a controversial pension law raising the minimum retirement age from 60 to 62 has been passed, amid public furore and strikes.

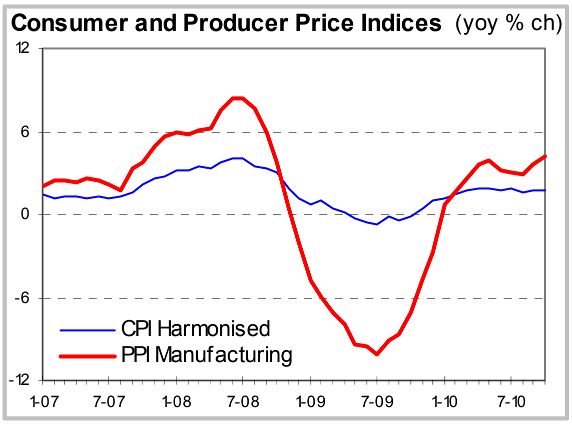
FRANCE

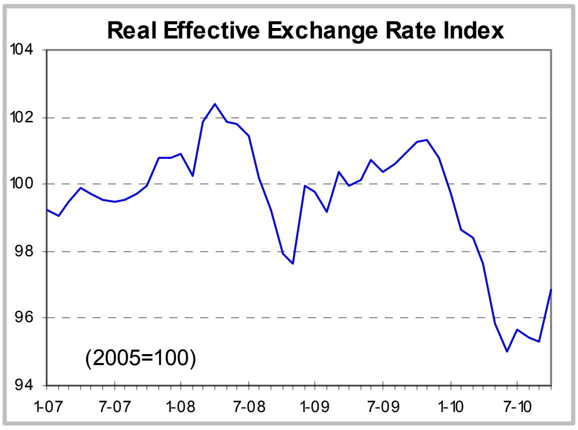


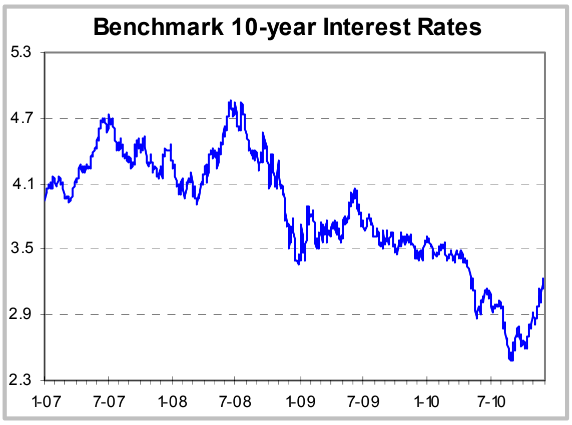


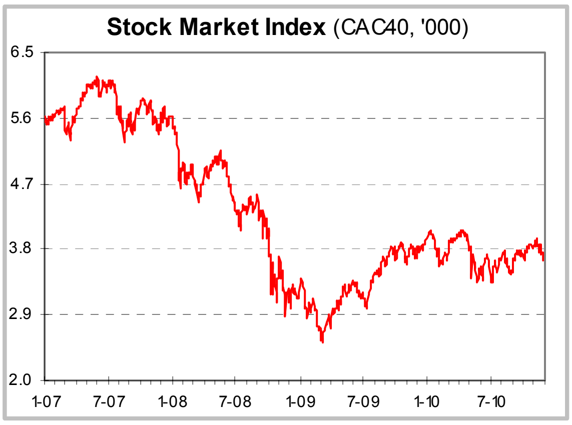












Sources: OECD, INSEE, BIS, daily press

BELGIUM

Real Indicators*	2007	2008	2009	Latest
GDP (wda)	2.8	0.8	-2.7	2.1 Q3
Industrial Production	2.8	-0.7	-13.4	1.3 Sep**
Construction (Gross Value Added)	2.3	-0.1	-3.4	-0.3 Q2
Consumer Prices – Harmonised Index***	1.8	4.5	0.0	3.1 Oct
Producer Prices***	2.6	7.6	-5.4	7.5 Sep
Hourly Earnings-Industry***	1.7	2.9	2.6	0.8 Q3
Standardised Unemployment Rate (%)	7.5	7.0	7.9	8.5 Oct
Current Account Balance (bn €)	5.4	-6.5	2.9	2.4 Q2°
as a percentage of GDP	1.6	-2.9	0.8	0.6
Real Effective Exchange Rate Index§	100.3	103.0	103.1	100.8 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2005=100

Financial Indicators	2007	2008	2009	Latest
Short Term Interest Rate pa (Euro Libor 3m)	4.28	4.64	1.23	1.00 Oct
Long Term Interest Rate pa (benchmark 10y)	4.33	4.41	3.90	3.21 Oct
Stock Exchange (BEL20) Index (% ch)*	13.1	-29.1	-31.8	0.4 29/11/10**

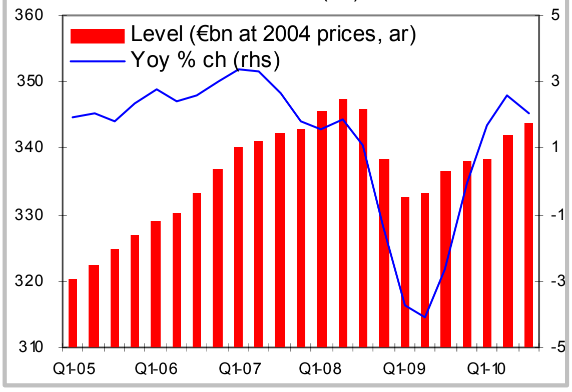
* Average over year; ** % change on 31/12/09

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

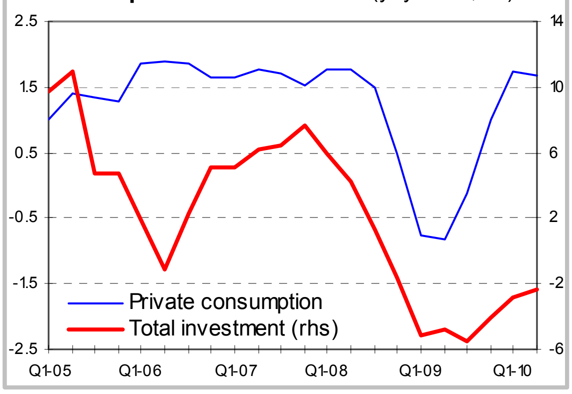
- Despite supportive fiscal and monetary policies, the pace of economic expansion moderated in Q3 10, following a very strong Q2. According to a flash estimate from the National Bank, GDP expanded by +0.5% qoq (+2.1% yoy) from +1% qoq in Q2 10.
- Retail sales recovered robustly since the beginning of the year, particularly reflecting higher car sales that were boosted by government incentives. Industrial production accelerated in September (+1.3% mom and +11.1% yoy), thus bringing capacity utilisation back towards its long-term average.
- The National Bank of Belgium's leading indicator increased for the fifth consecutive month in November - thus turning positive for the first time in the past 32 months - as views on business-related services and trade became increasingly less pessimistic.
- As a result of higher energy and food prices, inflation rose by 3.1% yoy in October (the highest level since November 2008). Price pressures also increased as the automatic wage indexation mechanism was triggered, leading to an upwards adjustment of social security benefits, public sector wages and private sector salaries. As a consequence, also core inflation continued to increase in October (+1.2% yoy).
- The 2010 budget deficit should narrow by nearly 1.3pp of GDP to just below 5% of GDP, reflecting higher growth and the phasing-out of some negative one-off revenue measures. However, lasting political uncertainties could dramatically delay the pace of fiscal consolidation programs.
- Housing investment is expected to bottom out in the last part of this year, supported by the temporary VAT reduction for new buildings (to 6.0% from 21%), renovation projects incentives and declining mortgage rates (from 5% and 4.6% on average in 2008 and 2009, respectively, to 4% by mid-2010).

BELGIUM

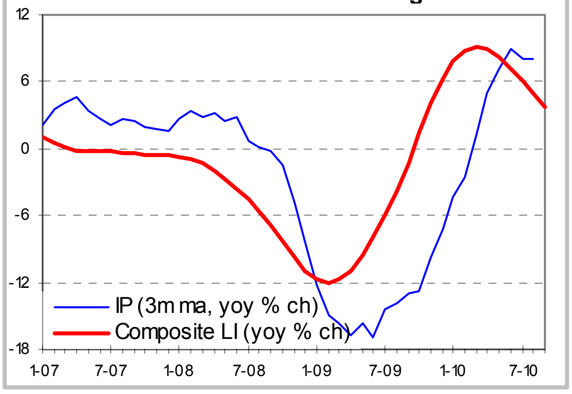
Real GDP (sa)



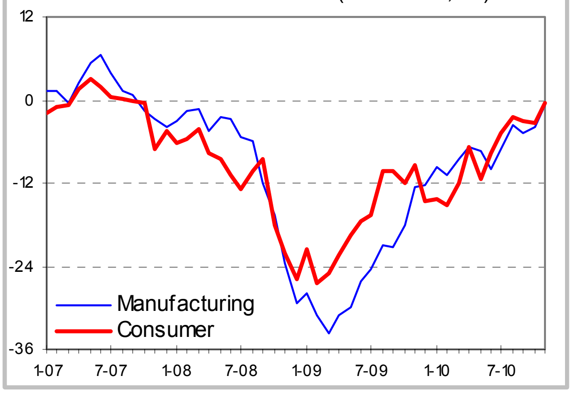
Consumption and Investment (yoy % ch, sa)



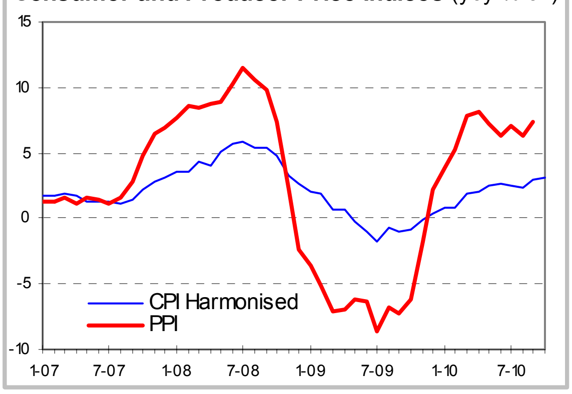
Industrial Production and Leading Indicator



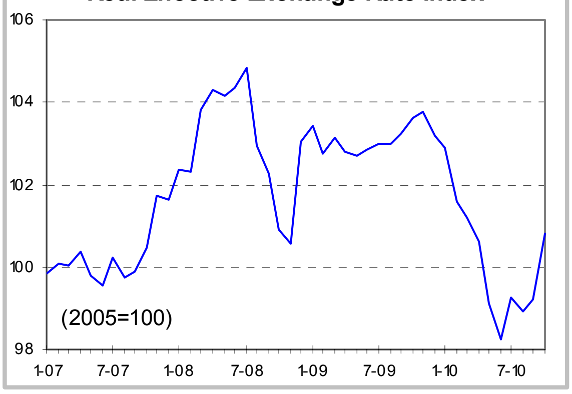
Confidence Indicators (% balance, sa)



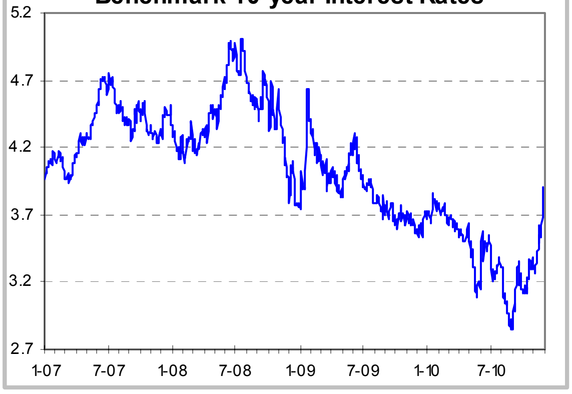
Consumer and Producer Price Indices (yoy % ch)



Real Effective Exchange Rate Index



Benchmark 10-year Interest Rates



Stock Market Index (BEL20, '000)

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

ITALY

Real Indicators*	2007	2008	2009	Latest
GDP (wda)	1.4	-1.3	-5.1	1.0 Q3
Industrial Production	2.6	-3.2	-18.4	-2.1 Sep**
Construction Investment (wda)	0.1	-3.4	-7.9	-3.5 Q2
Consumer Prices - Harmonised Index***	2.0	3.5	0.8	1.8 Nov
Producer Prices***	3.1	5.0	-4.7	3.8 Oct
Hourly Rates - Industry***	2.7	3.4	3.3	2.0 Oct
Standardised Unemployment Rate (%)	6.2	6.8	7.8	8.6 Oct
Current Account Balance (€bn)	-37.7	-56.8	-49.4	-48.2 Q1°
as a percentage of GDP	-2.4	-3.6	-3.2	-3.2
Real Effective Exchange Rate Index§	100.2	101.1	102.0	98.3 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; °latest 12 months up to Q1 included; § 2005=100

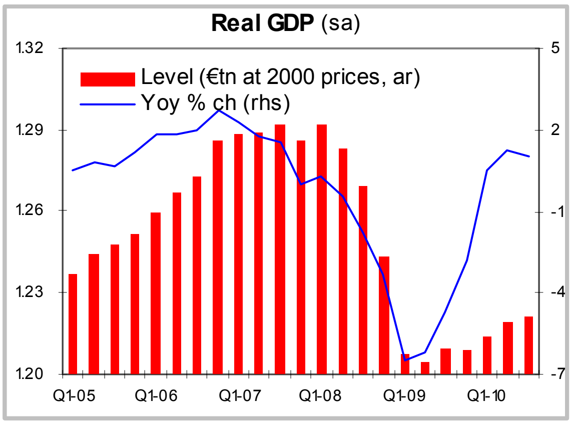
Financial Indicators	2007	2008	2009	Latest
Short Term Interest Rate pa (Euro Libor 3m)	4.28	4.64	1.23	1.00 Oct
Long Term Interest Rate pa (benchmark 10y)	4.49	4.68	4.31	3.80 Oct
Stock Exchange (MIBTEL) Index (% ch)*	9.8	-30.6	-29.6	-12.1 29/11/10**

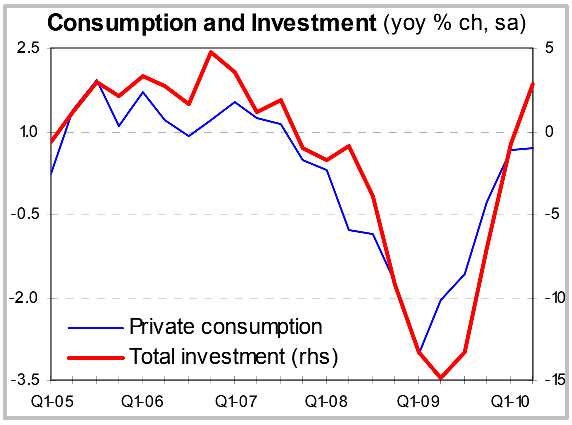
* Average over year; ** % change on 31/12/09

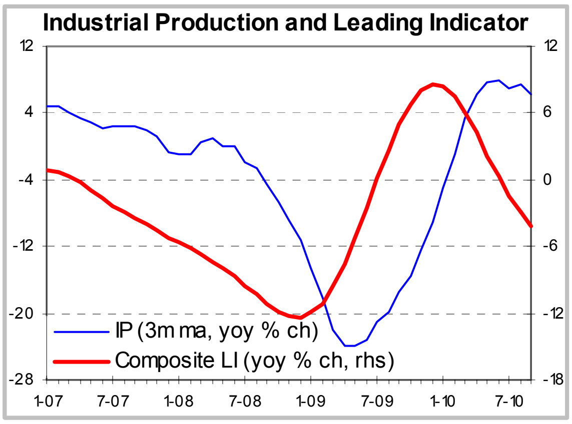
Sources: OECD, ISTAT, BIS, Banca d'Italia, daily press

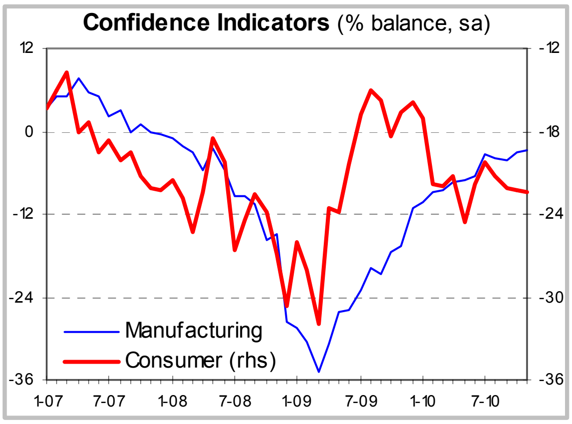
- According to preliminary estimates, GDP growth slipped to 0.2% qoq from the previous quarter strong 0.5%. Detailed data will be released on December 10th, but there are indications that the recovery is losing momentum as domestic demand, particularly consumption, remains sluggish and export are weakening in response to decelerating foreign demand.
- Investment other than construction, which continued to decline since Q1 08, and net export drove growth in Q2, contributing 0.4% and 0.6%, respectively, to overall qoq GDP growth. Instead, reflecting increased industrial activity large inventory drawdowns subtracted 0.4%.
- As temporary tax breaks for machinery and equipment investment expired by end-June, private investment is likely to have weakened in H2 also given a high level of spare capacity.
- Retail sales contracted in September by 0.2% following modest advances in July and August. Their performance so far this year is quite disappointing (+0.1% yoy in the first nine months) signalling that consumption is far from being back on a stable recovery path. In addition, households' sentiment has lost some ground after improving in the summer months.
- Labour market developments continue to be unfavourable with the unemployment rate back at 8.3% in September (and at an alarming 26.4% in the 15-24 age bracket) from 8.1% interrupting the mild improvement process started in May. Most worryingly, while the activity rate has fallen from the peak high in early 2008 of 63.5% to 62.1% (with an increasing degree of labour discouragement), the number of employees is now 2.8% lower than the pre-crisis peak level. In addition, around 210,000 full-time workers are currently under the public wage support scheme which is going to partially unwind in the coming months making many of them unemployed.
- Industrial production fell abruptly in September (-2.1% mom) erasing most of the summer gains. The latest manufacturing qualitative survey, however, surprised on the upside and shows that business confidence keeps improving on the back of still good foreign export books and production expectations, particularly in the capital and intermediate goods industries. Also turnover and order indices are on a recovery path. These relatively positive indications, in any case, do not mask that the recovery is still fragile as it is too dependent on foreign trends.
- The Parliament is currently debating the draft budget for 2011-13 aiming at reducing the deficit to GDP ratio from an estimated 5% this year to 3.9% in 2011 and 2.7% in 2012 as already legislated in late July.

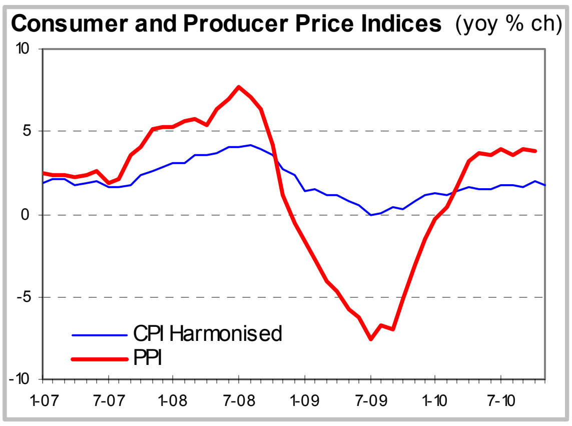
ITALY

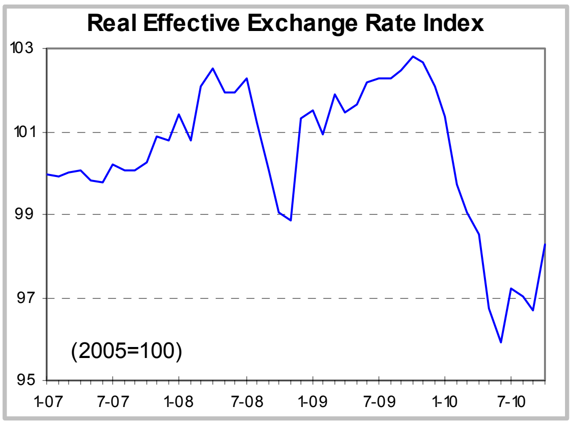


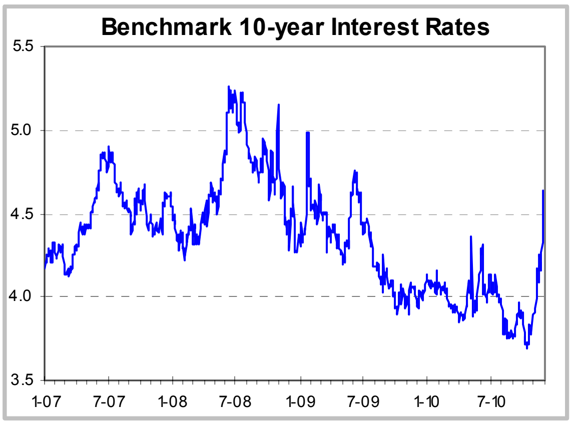












Sources: OECD, ISTAT, BIS, daily press

SPAIN

Real Indicators*	2007	2008	2009	Latest
GDP (wda)	3.6	0.9	-3.7	0.2 Q3
Industrial Production	2.1	-7.3	-15.8	-1.5 Sep**
Construction Investment (wda)	3.2	-5.9	-11.9	-11.6 Q3
Consumer Prices - Harmonised Index***	2.8	4.1	-0.2	2.2 Nov
Producer Prices - Manufacturing***	3.6	6.5	-3.4	4.1 Oct
Hourly Earnings***	4.4	4.8	5.0	0.8 Q2
Standardised Unemployment Rate (%)	8.3	11.4	18.0	20.7 Oct
Current Account Balance (€bn)	-105.3	-106.0	-58.3	-53.2 Q2°
as a percentage of GDP	-10.0	-9.7	-5.5	-5.1
Real Effective Exchange Rate Index§	102.8	104.8	104.6	102.5 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2005=100

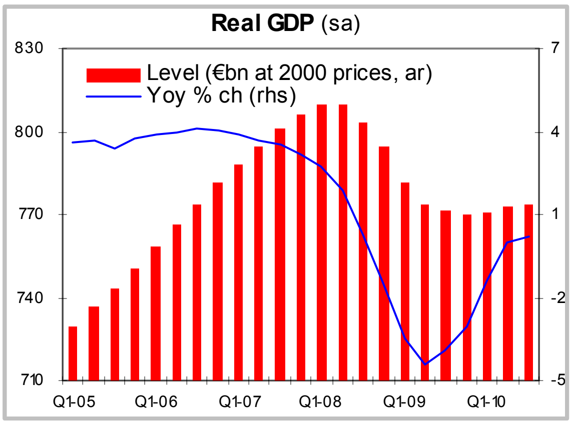
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	4.28	4.64	1.23	1.00 Oct
Long Term Interest Rate pa (benchmark 10y)	4.31	4.37	3.98	4.04 Oct
Stock Exchange (MSE) Index (% ch)*	23.1	-21.6	-18.3	-23.3 29/11/10**

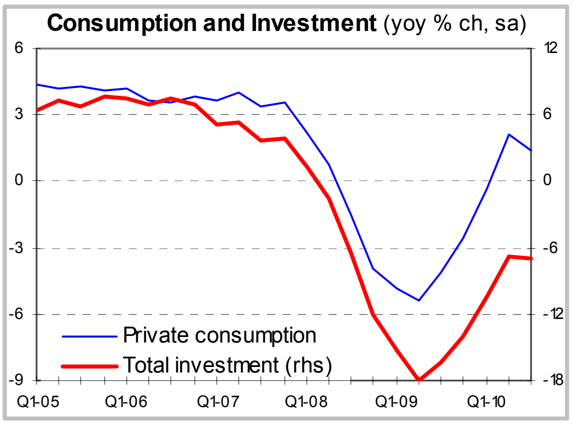
* Average over year; ** % change on 31/12/09

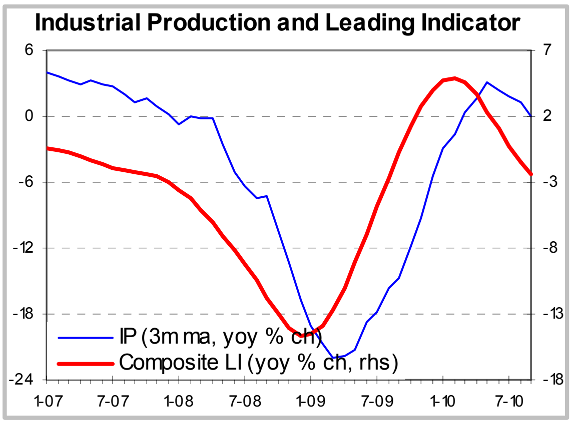
Sources: OECD, INE, BIS, daily press

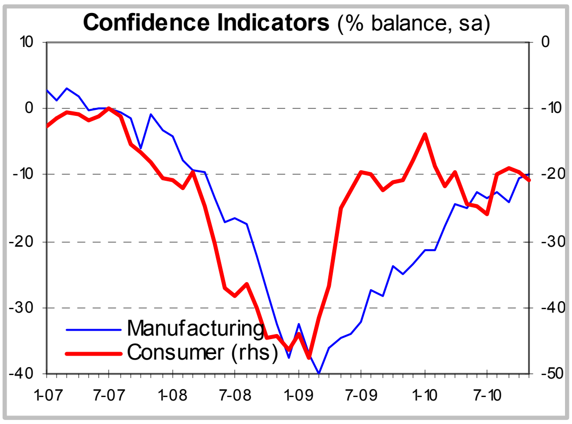
- The Spanish economy stagnated in Q3 also due to higher taxes and government spending retrenchment. Q3 figures give a clear signal of how the government austerity plan is - and will continue to be - weighing down of the recovery in the next quarters. Private consumption unsurprisingly fell by 1.1% qoq following the previous quarter strong performance, which had been boosted by forward spending ahead of the increase in VAT rates in July. The end of the government car scrappage scheme also contributed to depress consumption.
- The plunge in investment intensified in Q3 with the largest qoq fall in more than a year (-3.3%) driven by plummeting equipment investment and by the continuing deep recession in the construction sector (-3.2% qoq). The only positive growth contribution came from net export, more precisely from falling import as export stagnated.
- Several indicators deteriorated at the start of Q4, primarily a renewed fall in consumer confidence, a brisker contraction in service sector activity, and tumbling new car sales. The dismal state of the Spanish economy is summed up in the dramatic labour market developments with the unemployment rate still rising and hitting 20.8% last September. This provides further evidence that the economy has lost momentum after the modest rebound in H1 10. In addition, industrial production declined again in September (-1.5% mom) and is stuck at the depressed levels prevailing since the early months of 2009. In fact, there never was a pick-up in industrial activity.
- Consumer price inflation shot up at 2.2% in November mainly as a result of high energy prices and increased indirect taxes. In fact, there is little risk of inflation accelerating given vast capacity underutilisation, low demand pressures, and wage moderation.
- With financial markets increasingly unsettled about the sovereign debt situation in Ireland, Spanish 10-year bond yields have sharply moved up (almost +150bp from mid-October as of November 29th). In perspective, this may widen the interest payment burden making fiscal consolidation harder. The government passed an austere 2011 budget to parliament in October which includes an average cut of 15.6% in ministerial budgets, a fall in public investment of almost 30% and a freeze in public-sector wages. It projects the deficit to GDP ratio to fall to 9.3% this year (down from 11.1% in 2009) and to 6% in 2011.

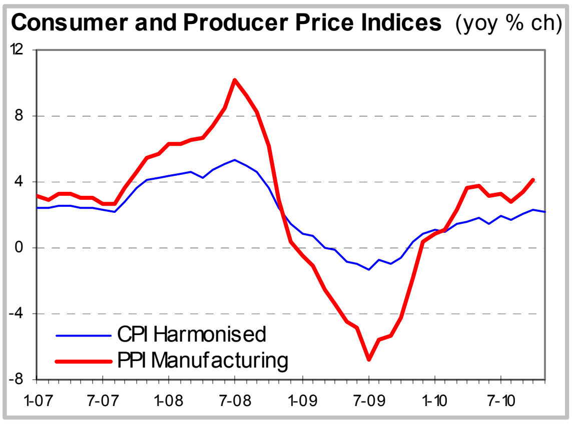
SPAIN

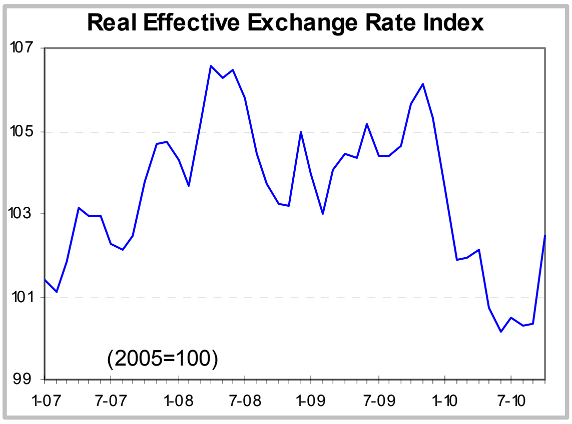


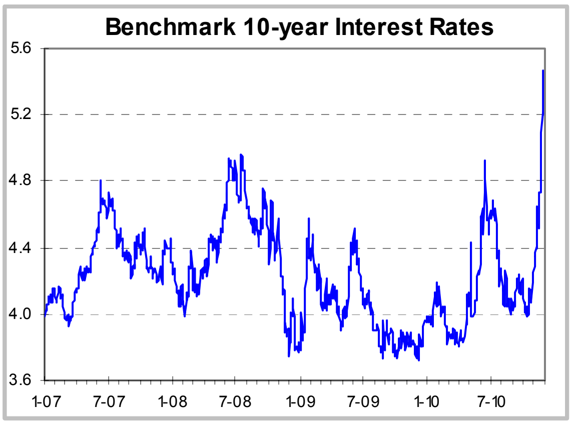












Sources: OECD, INE, BIS, daily press

GREECE

Real Indicators*	2007	2008	2009	Latest
GDP	4.5	2.0	-1.9	-4.5 Q3
Industrial Production	2.0	-0.3	-9.7	5.2 Aug**
Construction Investment	-5.3	-19.1	-11.3	-23.0 Q2
Consumer Prices – Harmonised Index***	3.0	4.2	1.3	5.2 Oct
Producer Prices – Manufacturing***	3.5	8.8	-6.8	5.4 Oct
Standardised Unemployment Rate (%)	8.3	7.7	9.5	11.8 Q2
Current Account Balance (€bn) ***	-32.6	-34.8	-26.6	-26.8 Q2°
as a percentage of GDP	-14.4	-14.6	-11.2	-11.3
Real Effective Exchange Rate Index§	102.0	104.2	105.7	106.5 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2005=100

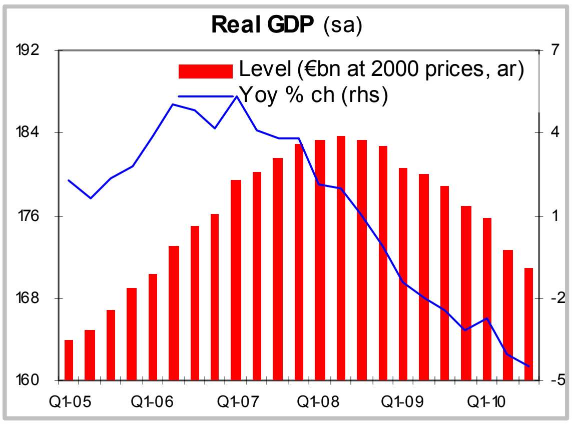
Financial Indicators				
Short Term Interest Rate pa	4.28	4.64	1.23	1.00 Oct
Long Term Interest Rate pa (benchmark 10y)	4.50	4.80	5.17	9.57 Oct
Stock Exchange (ASE) Index (% ch)*	22.2	-30.3	-36.1	-35.7 29/11/10**

* Average over year; ** % change on 31/12/09

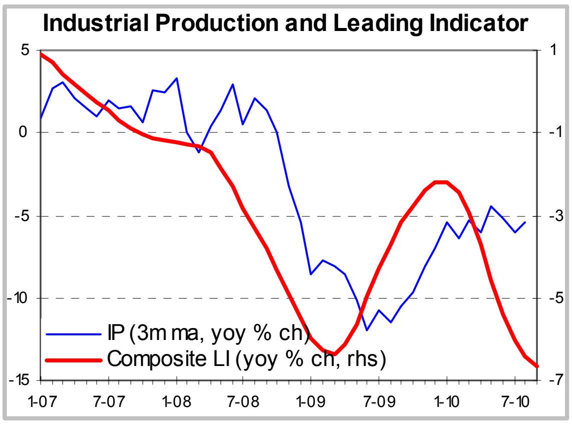
Sources: OECD, National Bank of Greece, European Commission, BIS, daily press

- According to preliminary national accounts estimates, GDP fell a further 1.1% qoq in Q3 bringing the contraction to -3.7% so far this year (more detailed data will be released later in mid-December). In Q2 the fall was driven by a dramatic drop in private consumption and investment (-6.2% and -15.4% qoq, respectively) while, surprisingly, government expenditure was positive on a qoq basis (+2.7% qoq) albeit sharply down on yoy comparison (-8.4% yoy). The latter figure may be related, however, to the fact that methods of estimating government transactions have been meanwhile changed by the National Statistics Institute (NSI).
- Given plummeting household confidence, depressed business sentiment, plunging retail sales, fiscal retrenchment, tighter credit conditions, severe recession in the housing market, and a dramatic surge in unemployment, consumption and investment have likely kept falling in the summer months while prospects remain grim. As the plunge in import far outpaced that of export, in Q2 the contribution of net export to overall qoq GDP growth was substantial (+2.8%), which indirectly emphasises the depth of the domestic recession. The NSI has suggested, in its Q3 GDP “flash” release, that net export remained strongly positive also in Q3.
- The draconian fiscal austerity measures implemented by the government to rein in the deficit and put debt dynamics under check is impacting heavily on the Greek economy. Inflation is hovering over 5% as an effect of indirect tax hikes introduced with the austerity plan. Higher price levels coupled with rising unemployment (up to 11.8% in Q2 from the two years earlier minimum of 7.5%) is resulting in an erosion of disposable income. National analysts expect employment to contract by 7% during the crisis with the unemployment rate peaking at around 15% in mid-2012.
- Greece's fiscal deficit fell dramatically by 30% yoy in the first 10 months this year - still, however, below the target of a fall of 32% for the period. The government has recently submitted the second draft of the 2011 budget to the parliament. This takes into account the sharp revision of fiscal data for the period 2006-09, made earlier in November, by Eurostat and showing, as expected, higher government deficit than previously estimated for 2009 (revised up to 15.4% from 13.6% of GDP). Given the higher starting point the deficit for this year is projected at 9.4% of GDP (missing the previously set target of 7.8%), and at 7.4% for 2011. In order to achieve this target, the government is committed to raise the lowest VAT rates from 11% to 13% and from 5.5% to 6.5%, respectively, and introduce a levy on highly profitable firms. On the spending side, the government plans to make significant cuts to current expenditure and defence spending, as well as introducing means testing to receive social benefits.

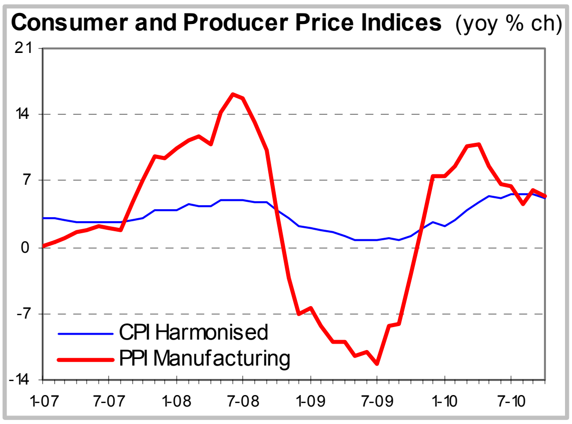
GREECE



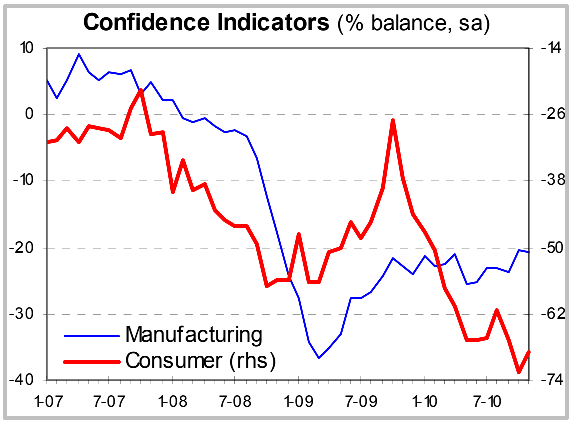
Real GDP (sa)



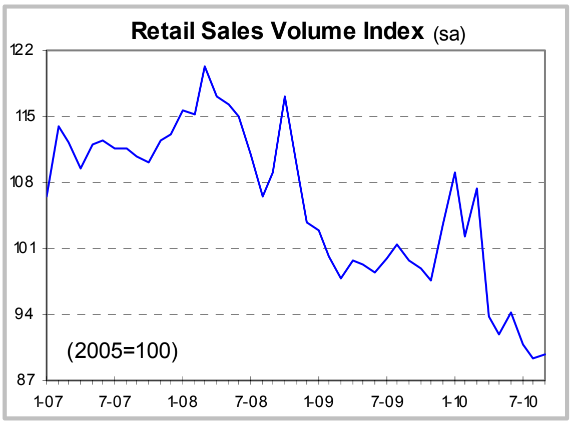
Industrial Production and Leading Indicator



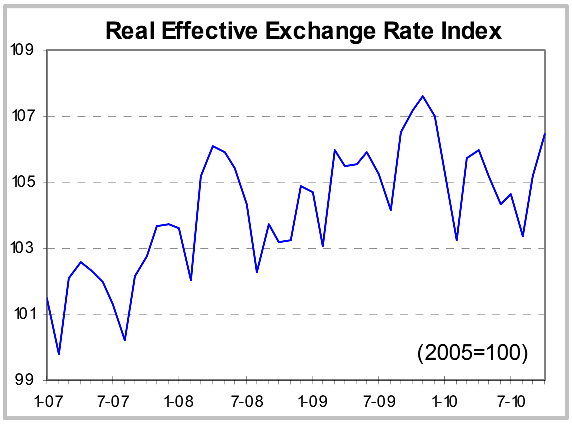
Consumer and Producer Price Indices (yoy % ch)



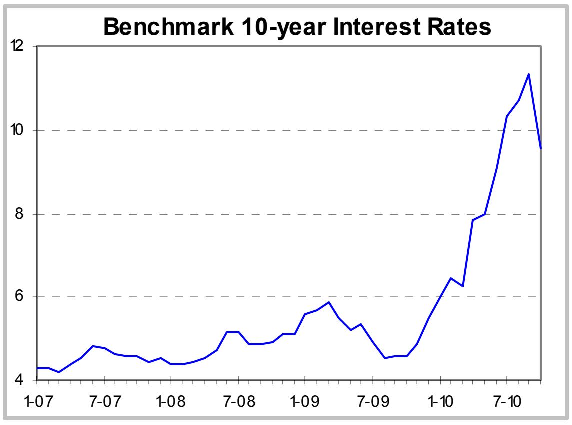
Confidence Indicators (% balance, sa)



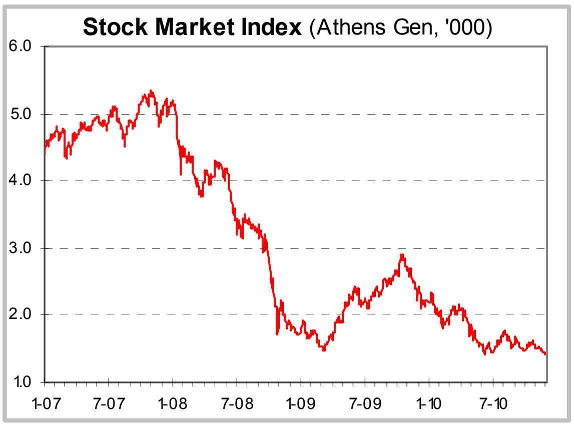
Retail Sales Volume Index (sa)



Real Effective Exchange Rate Index



Benchmark 10-year Interest Rates



Stock Market Index (Athens Gen, '000)

Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2007	2008	2009	Latest
GDP (wda)	6.4	6.2	-4.9	0.2 Q3
Gross Fixed Capital Investment (wda)	11.8	21.9	-29.0	-15.6 Q2
Industrial Production – Manufacturing	9.5	0.7	-22.4	11.1 Sep
Consumer Prices – Harmonised Index	7.6	12.0	2.5	3.6 Oct
Producer Prices – Manufacturing	7.1	13.1	-9.1	8.6 Oct
Unemployment Rate (%)	7.7	6.3	7.6	8.9 Oct
Current Account Balance (US$bn)	-10.0	-12.6	-4.8	-0.8 Q3°
as a percentage of GDP	-26.8	-24.0	-10.3	-1.1
Real Effective Exchange Rate Index§	110.4	120.4	125.2	121.8 Oct

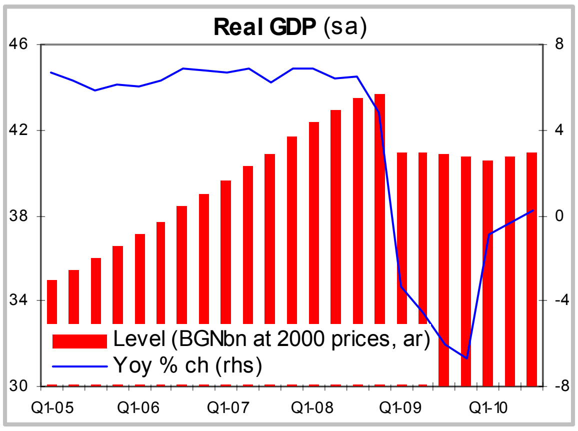
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2005=100

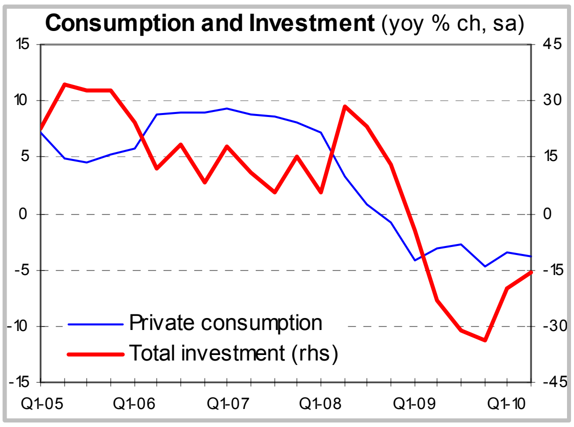
Financial Indicators				
Short Term Interest Rate pa (sofibor o/n)	4.1	5.3	2.2	0.4 Oct
Short Term Interest Rate pa (sofibor 3m)	4.9	7.1	5.7	4.0 Oct
Long Term Interest Rate pa (benchmark 10y)	4.5	5.4	7.2	5.8 Oct

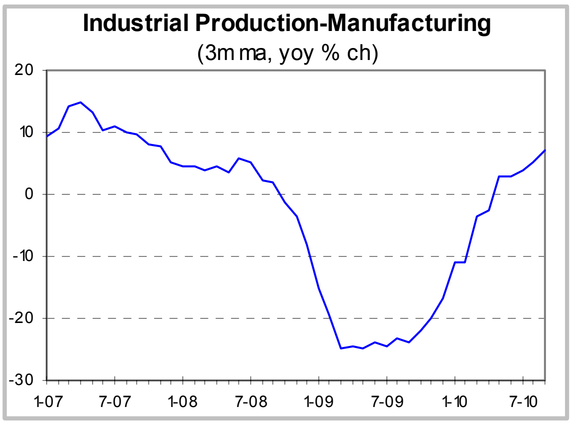
Sources: National Statistics Institute, BIS, National Bank of Bulgaria

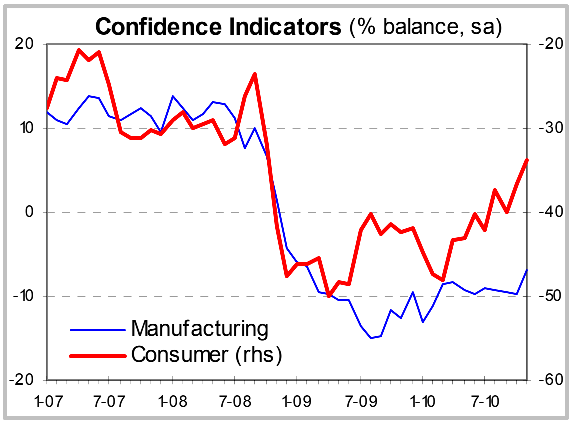
- The Bulgarian economy appears to be slowly resurfacing from recession. However, the recovery is still very fragile as it is mostly driven by export while domestic demand continues to contract due to high unemployment rates and tight credit conditions. As a matter of fact, GDP finally edged up in both Q2 and Q3 10 (+0.5 and +0.2% qoq) on the back of an increasingly larger net export contribution (+0.4% and +7.5% to overall qoq GDP growth). The recovery in the euro area is clearly propping up Bulgaria via higher exports but as prospects for the former are of a softer pace ahead the recovery in the latter could be again at risk.
- Private consumption plunged by 3.7% qoq in Q3, following a far milder contraction in Q2, driving also import in negative territory. The only positive note was a pick up in investment in Q3 (+1% qoq) which could reflect improved absorption of EU funds benefiting particularly road construction.
- Looking at sector activity, agriculture was the only one in positive territory in Q3 while both industry and services returned to negative growth figures after a positive Q2. As more detailed data for Q3 are not yet available we are not able to assess whether positive growth in the construction sector recorded in Q2 (+1.4% qoq and +0.9% yoy, the first positive figures in five quarters) has continued into full-blown recovery also in Q3. In fact, construction production indices and building permits in recent months have continued to exhibit lacklustre performances.
- While a slight improvement in consumer confidence has crept in, also on the back of a small increase in employed numbers leading to a fall, in Q3, of 0.5% in the unemployment rate, pessimism prevails in the manufacturing sector following a recovery in industrial production in the first part of the year. According to recent surveys, manufacturing managers do not intend to create new jobs, thus delaying further the consumption rebound.
- Credit conditions remain tight for two main reasons: first, non-performing-loans recorded in the banks' balance sheet are still elevated; second, foreign capital inflows have stabilised at a lower level than prior to the crisis (the figure for the first nine months of 2010 is €901.4mn, down nearly 60% from the total in the same period of 2009).
- Rising food and clothes prices boosted inflation in recent months but, given plenty of slack in the economy and no demand pressure, price dynamics do not pose a real threat.
- The target for the budget deficit for 2011 has been set to 2.5% of GDP, following this year 4.8%, which indicates that the government is going to tighten its fiscal stance despite relatively strong fiscal fundamentals.

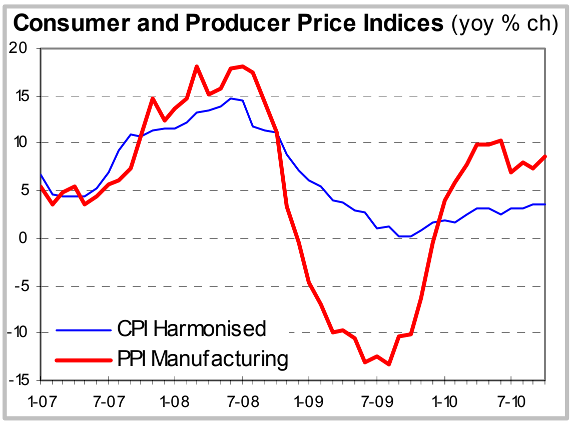
BULGARIA

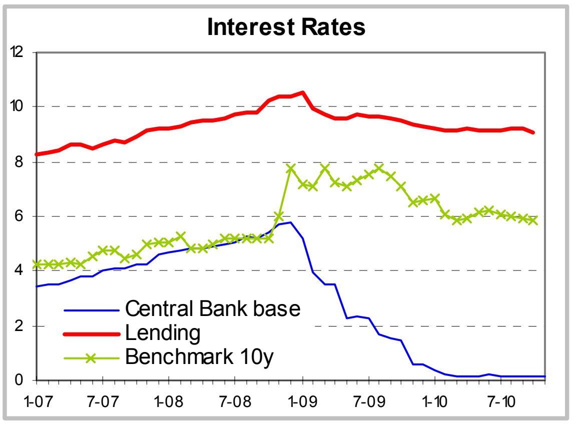


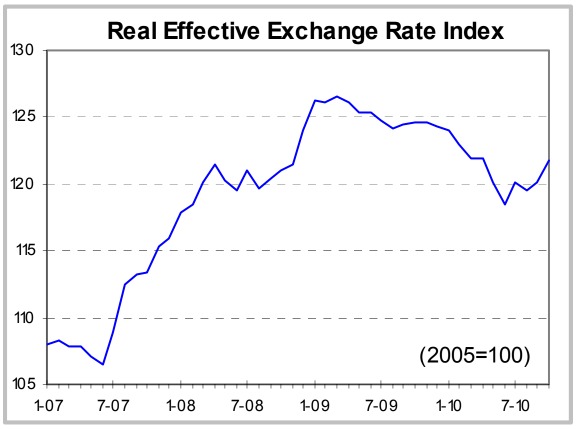


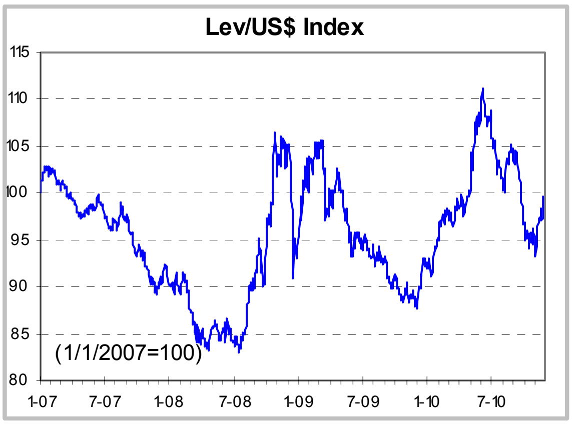












Sources: National Statistics Institute, National Bank of Bulgaria, BIS, daily press

EGYPT

Real Indicators*	2007	2008	2009	Latest
GDP	7.3	6.0	4.6	6.0 Q2
Construction Production (Gross Value Added)	15.8	11.8	14.2	11.9 Q2
Consumer Prices	9.6	18.3	11.8	11.0 Oct
Producer Prices**		21.3	-5.6	21.9 Oct
Unemployment Rate (%)	9.0	8.7	9.4	8.9 Q3
Current Account Balance (US$bn)	0.2	-1.3	-3.2	-4.3 Q2°
as a percentage of GDP	0.2	-0.5	-1.6	-2.0
Real Effective Exchange Rate Index§	67.6	78.0	87.2	97.7 Oct

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

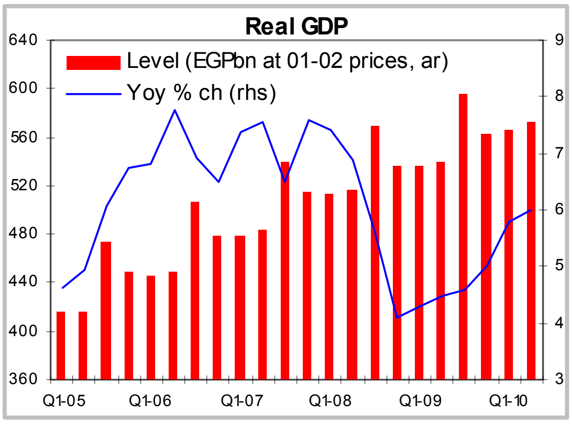
Financial Indicators	2007	2008	2009	Latest
Short Term Interest Rate pa (overnight)	8.8	10.3	9.5	8.3 Oct
Short Term Interest Rate pa (91 days T-Bill)	7.6	9.3	10.3	9.1 Oct
Stock Exchange (HERMES) Index (% ch)*	29.2	8.7	-32.8	11.8 29/11/10**

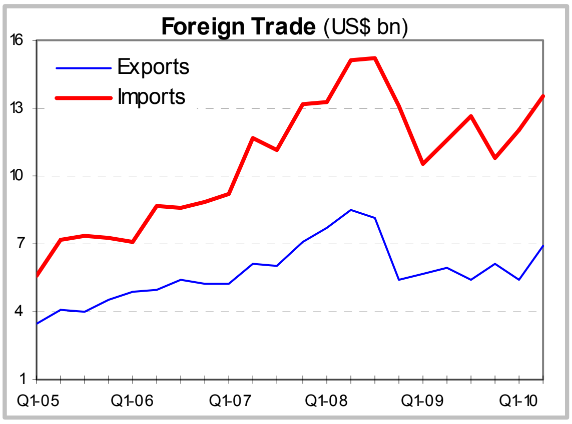
* Average over year; ** % change on 31/12/09

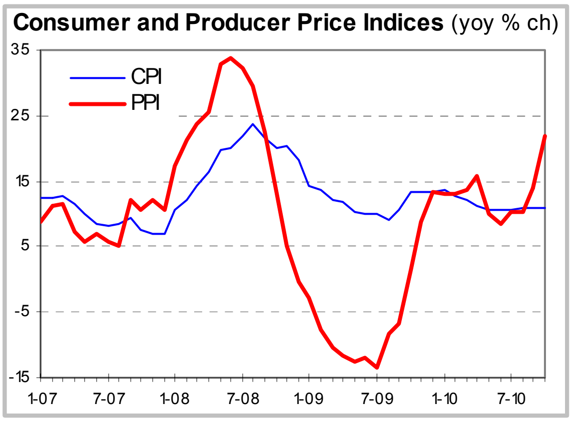
Sources: Central Bank of Egypt, Central Agency for Public Mobilization and Statistics, SESO's calculation, daily press

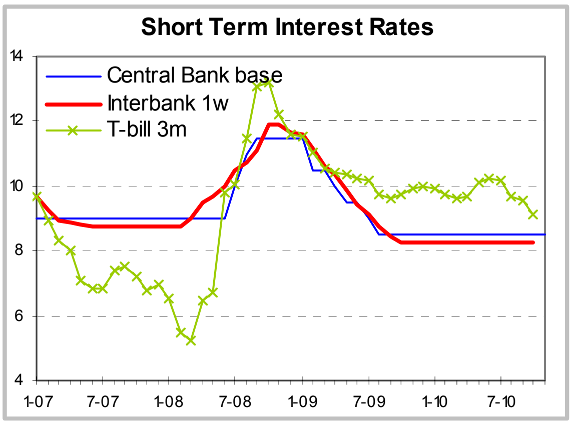
- GDP dynamics accelerated further in Q2 10, overcoming the 6% yoy threshold after almost two years. Growth was broad-based but the highest contributions came from manufacturing, construction, communication, and the hotel and restaurant sector (up by 5.8%, 11.9%, 11.7% and 12.1% yoy, respectively). Suez canal receipts continued to expand robustly (+90% yoy according to balance of payment data) also thanks to the recent deepening in the waterway which has allowed many more ships to use it.
- From the expenditure side, a welcome development has been the robust pace of domestic demand. Private consumption accelerated in Q2 10 to 8.9% yoy from the previous quarter 5.5%, as reflected also in the 7.7% yoy rise of the wholesale and retail sector. Total gross investment expanded by a robust 17% yoy following +5.5% yoy in Q1. The accelerating momentum for consumption is also related to the strong rebound in workers' remittances (+80% yoy in Q1 10) and the buoyant performance of the tourist sector.
- The tourism minister recently declared that the number of tourists visiting Egypt was 14mn in the first 10 months of this year and the sector is expected to record an annual growth of 18% by the end of the year. As a matter of fact, balance of payment data show that tourism revenues were almost 18% higher in the first half of 2010 relative to a year earlier. Notably, the minister also pointed out that an increase in arrivals by 1mn translates into 200,000 new jobs. This year 600,000 new jobs were created, 240,000 hotel rooms are currently operating while 212,000 additional rooms are under construction.
- Inflation accelerated slightly to 11% in October but, as core inflation remains within the assumed 6-8% Central Bank of Egypt (CBE) comfort zone, monetary policy has not been tightened at the last November monetary policy committee. Given the strong economic momentum inflationary pressures persist and the CBE conducts a cautious monetary policy aimed at not derailing growth at a time of incoming global slowdown. Recent volatility in the forex may herald some weakening ahead although the CBE is expected to keep monitoring strictly the exchange rate not tolerating currency speculation.
- The current account deficit widened in Q2 10 primarily because of much lower service receipts while the trade deficit improved slightly. On the financial account, foreign direct investment climbed by 42% on the previous quarter although on a yoy comparison it was 16% lower.

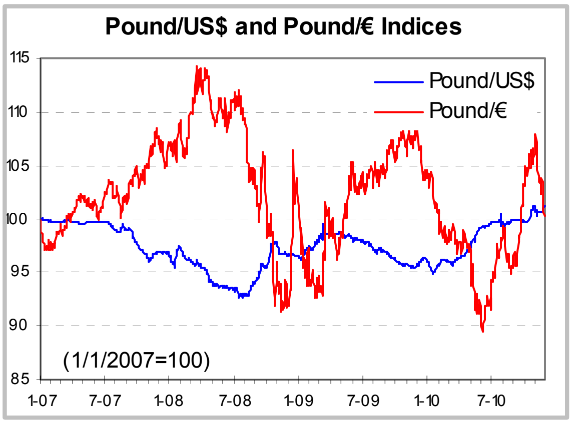
EGYPT











Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2007	2008	2009	Latest
GDP	2.7	5.6	4.9	3.0 Q2
Construction Production (Gross Value Added)	10.3	9.4	2.4	2.6 Q2
Industrial Production	4.6	2.2	0.3	0.9 Q2
Consumer Prices	2.0	3.7	1.0	1.8 Oct
Producer Prices – Manufacturing	1.8	18.0	-15.1	7.1 Oct
Urban Unemployment Rate (%)	15.4	14.7	13.8	13.8 Q3
Current Account Balance (US$bn)	-0.1	-4.6	-4.5	-4.9 Q2°
as a percentage of GDP	-0.1	-5.2	-5.0	-5.7
Real Effective Exchange Rate Index§	99.7	100.2	102.4	96.8 Sep

* yoy % ch, nsa, unless otherwise indicated;° latest 12 months up to Q2 included; § 2005=100

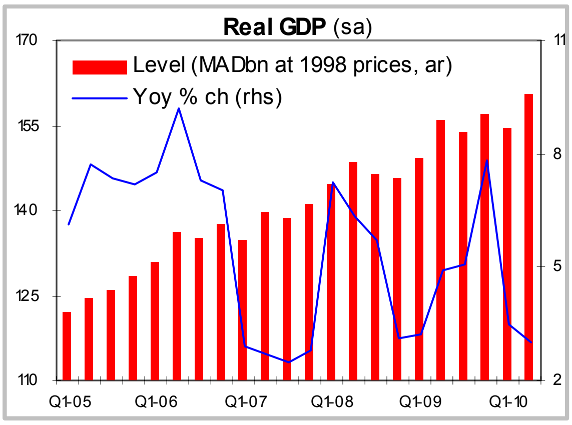
Financial Indicators	2007	2008	2009	Latest
Short Term Interest Rate pa	3.3	3.4	3.3	3.2 Oct
Stock Exchange (MASI) Index (% ch)*	55.1	14.4	-20.4	16.9 29/11/10**

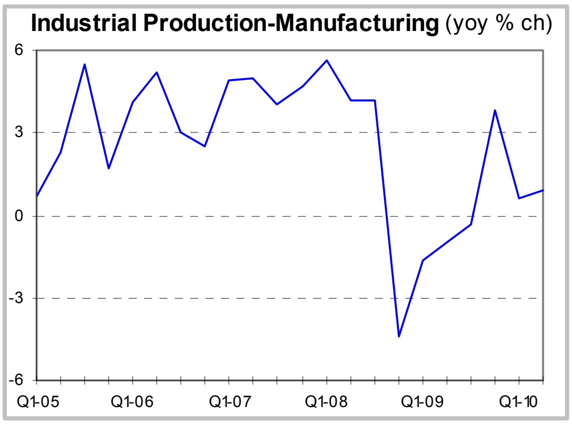
* Average over year; ** % change on 31/12/09

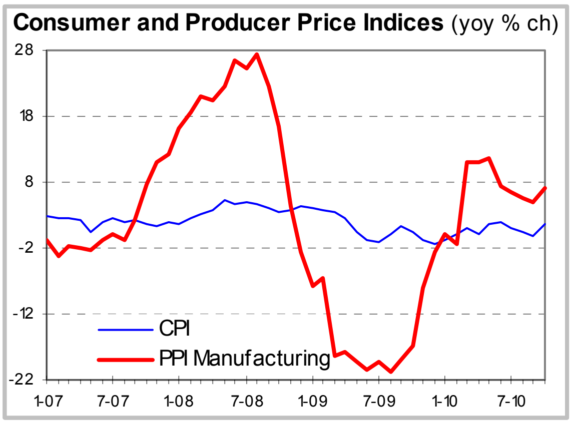
Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, IMF, daily press

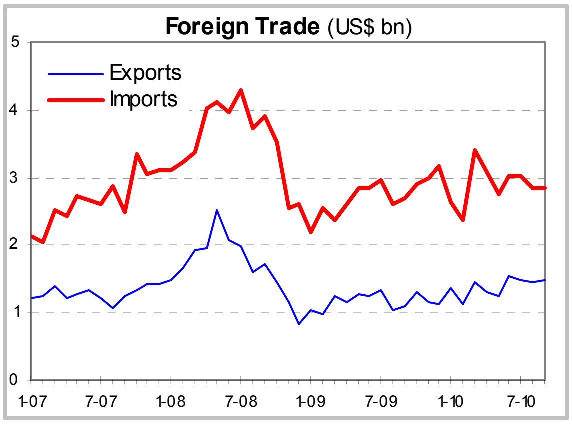
- The Moroccan economy continued to ease in Q2 10 on the back of a contracting agriculture sector. Agriculture was hit by bad weather earlier this year but, also, output is to be confronted with two years of record harvests. In fact, according to data from the agriculture ministry, cereal production between June and July was 27% lower than last year but 11% above the average in the five previous years.
- Growth outside agriculture was well above 5% with more modest advances in the industrial sector and double digit growth in the mining and the electricity sectors (+46.9% and +11.3% yoy, respectively). Reflecting a rebound in tourist arrivals hotel and restaurant activity advanced by 8.3% yoy while the construction sector remained relatively weak (+2.6% yoy, following +2.9% yoy in Q1 10), due to some slack in the residential segment.
- Preliminary estimates point to continuing weak overall economic growth in Q3 10 (+2.9% yoy) as the agriculture sector continues to be a drag while non-agriculture GDP advanced by 4.8% yoy. Given persistent difficult economic conditions in the European economies, the tourist sector is estimated to be expanding less rapidly in H2 10.
- As a matter of fact, the number of tourist arrivals rose by 7.5% yoy in Q3 10 which implies a deceleration from the double-digit performance of the previous two quarters (+15.6% and +11.8% yoy in Q1 and Q2 10 respectively), while tourism revenues decelerated to +6.5% yoy in Q2 from the previous quarter +19.6%.
- Inflation edged up to 1.8% in October mostly because of higher food prices (+1.7% mom whereas non-food inflation was 0.1%). The lack of inflationary pressures has prevented the central bank from tightening its monetary stance while carrying out a policy of normalisation of liquidity creation.
- The draft budget 2011 presented late in October maintains a supportive stance and forecasts a deficit to GDP ratio of 3.5% in 2011, down from the estimated 4% this year, as higher revenues are expected on improved economic performance. Lower corporate taxes are planned for very small enterprises conditional to creating at least one new job per annum for a total of three years. The government will also continue to invest heavily in infrastructure and social housing.
- The current account deficit widened in Q2 10 relative to the previous quarter on the back of a larger trade deficit. On the positive side, migrant remittances continued to rebound (+9% yoy following +13.2% in Q1) and foreign direct investment returned to flow in more strongly (+60% yoy and +41.8% qoq).

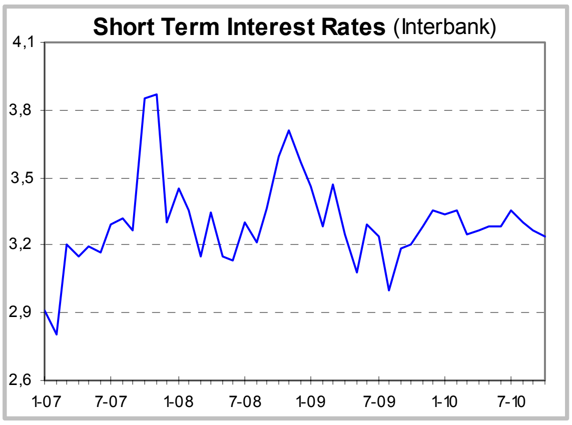
MOROCCO

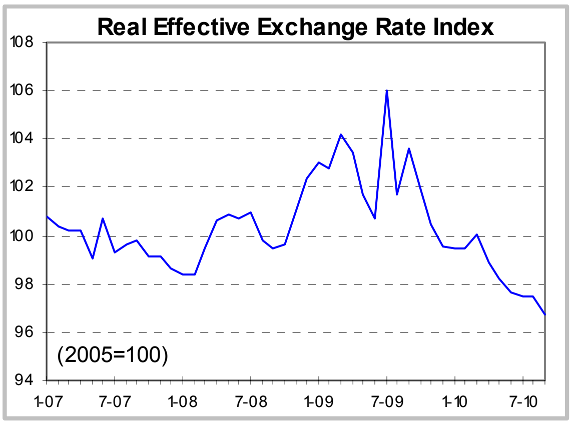


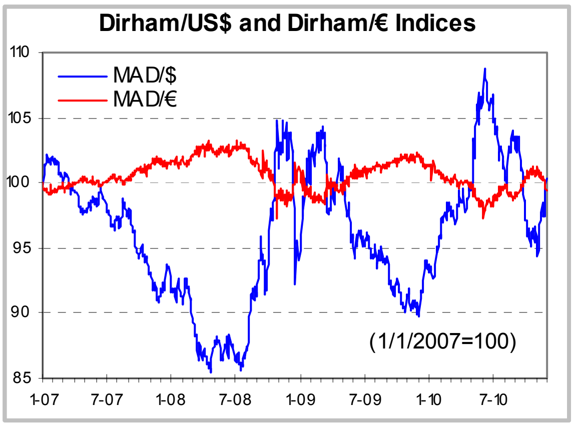












Sources : Direction de la Statistique du Maroc, Haut Commissariat au Plan, Office des Changes, IMF, daily press

TURKEY

Real Indicators*	2007	2008	2009	Latest
GDP**	4.7	0.7	-4.7	10.0 Q2
Industrial Production**	7.0	-0.6	-9.9	5.3 Aug***
Construction Investment	5.8	-6.9	-14.8	21.0 Q2
Consumer Prices	8.8	10.4	6.3	8.6 Oct
Producer Prices – Manufacturing	5.6	11.8	-0.6	5.2 Oct
Unemployment Rate (%)	10.3	11.0	14.1	11.4 Aug
Current Account Balance (US$bn)**	-38.3	-41.9	-14.0	-27.3 Q2°
as a percentage of GDP	-5.9	-5.7	-2.3	-4.0
Real Effective Exchange Rate Index§	107.3	108.8	102.0	115.9 Oct

* yoy % ch, nsa, unless otherwise indicated; ** sa; *** mom % ch ; ° latest 12 months up to Q2 included; § 2005=100

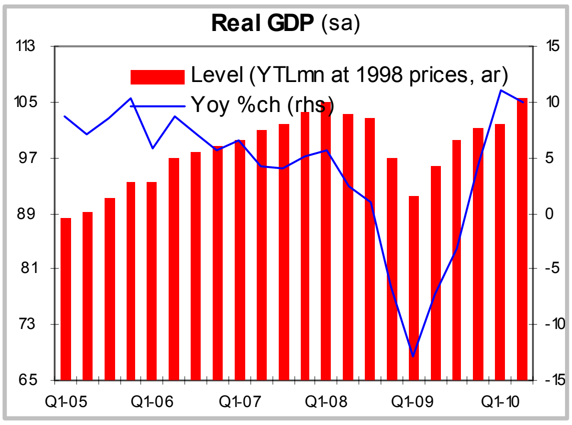
Financial Indicators				
Short Term Interest Rate pa (lending)	22.15	18.36	10.21	8.75 Nov
Stock Exchange (IMBK) Index (% ch)*	21.1	-21.9	-0.2	21.3 29/11/10**

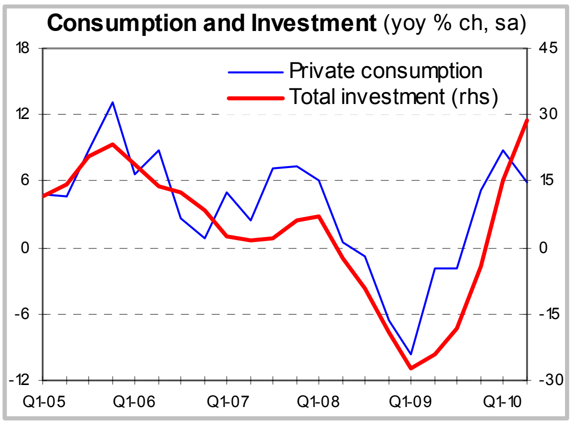
* Average over year; ** % change on 31/12/09

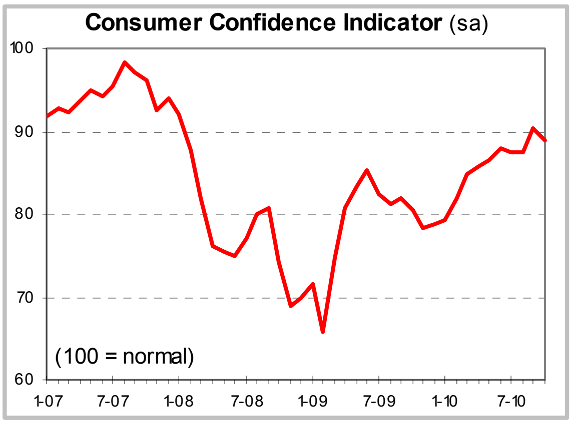
Sources: OECD, BIS, Central Bank of Turkey, daily press

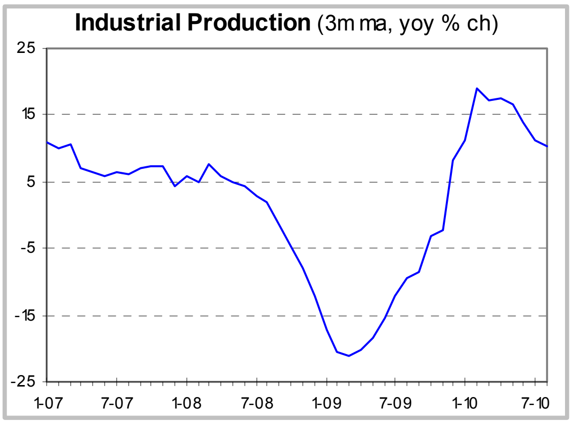
- Economic recovery continued at full speed in Q2 10 as GDP shot up by 3.7% qoq (+10% yoy) driven by both domestic and foreign demand. The biggest contributor was total investment which added 1.6% to qoq GDP growth followed by net export which added a further 1.1%. As a matter of fact, investment kept soaring at impressive rates: +7.4% qoq (+28.6% yoy) and is rapidly getting closer to pre-crisis levels. Both machinery and equipment and construction items recorded double-digit growth, +21% and +34.7% yoy, respectively. Large de-stocking was a drag on growth.
- Buoyed by falling unemployment and rising labour-force participation (finally reaching 50%) and by low real interest rates also private consumption grew healthily in Q2 10 (+1% qoq and +5.9% yoy) albeit slowing down somewhat from the previous quarter. Most recent indicators of consumer and business confidence and related surveys point to continuing economic momentum in the second half of the year.
- However, exports and manufacturing are starting to slow down also because of a less favourable statistical base which, coupled with weakening euro area economies, anticipates a deceleration of the overall economy.
- Consumer price inflation surprised on the upside in October and jumped 1.8% mom, mainly due to an unexpectedly strong 4.5% mom surge in food prices. Nevertheless, on annual comparison inflation slowed to 8.6%. The year-end target for the Central Bank of Turkey (CBT) of 7% appears in any case out of reach.
- On the other hand, as core inflation (i.e. ex food and energy) was just 2.5% in October, a record low, the CBT does not appear too concerned about inflationary pressures. As a matter of fact, the CBT did not raise the policy rate in its latest monetary policy meeting although it decided to raise again reserve requirement ratios in order to curb excessive credit growth which in fact calls for greater prudential surveillance.
- Given the rapid economic expansion the current account deficit widened again. A surge of foreign portfolio inflows and the repatriation of Turkish banks' forex holdings previously held abroad has been so far financing the deficit. Until foreign investors' sentiment remains favourable towards Turkey, thanks to its good growth prospects and healthy financial sector, the current account deficit does not pose a big threat. However, downside risks are emerging given the heavy reliance on short-term financing.
- Being a target country for foreign investors Turkey has undergone intense currency pressure (the lira appreciated almost 12% since May) and enjoyed spectacular stock exchange growth.

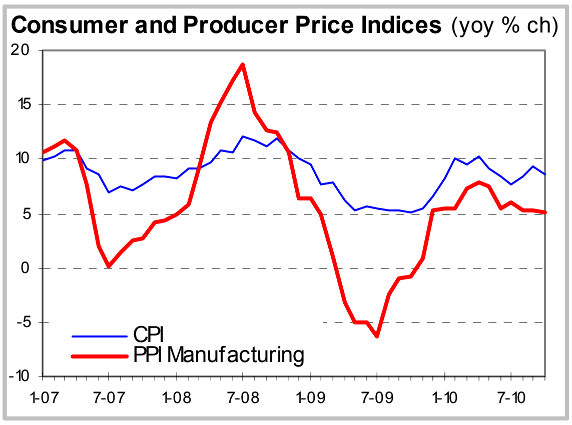
TURKEY

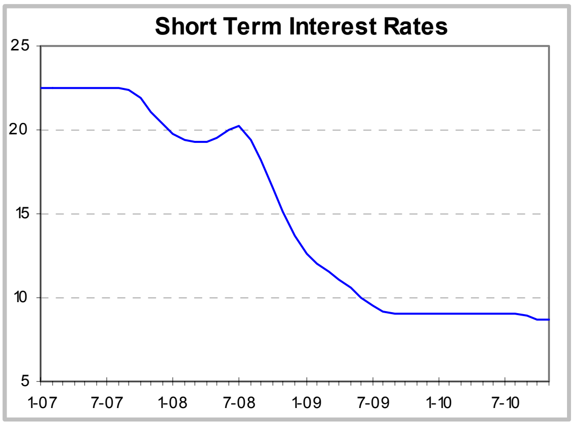


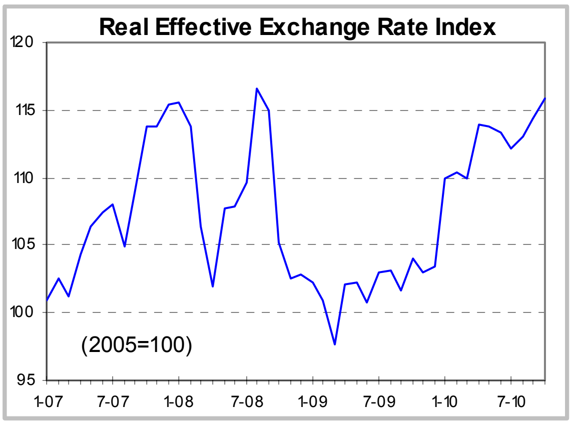


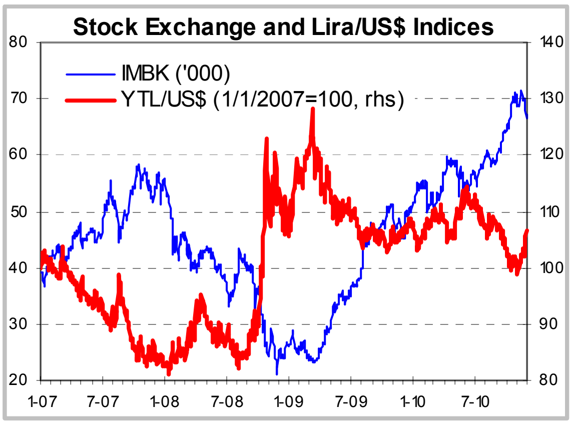












Sources: OECD, BIS, Central Bank of Turkey, daily press

THAILAND

Real Indicators*	2007	2008	2009	Latest
GDP	4.9	2.5	-2.2	6.6 Q3
Industrial Production – Manufacturing	8.1	4.0	-7.3	-0.7 Oct**
Construction Investment	2.6	-4.2	0.4	5.7 Q3
Consumer Prices***	2.2	5.5	-0.8	2.9 Oct
Producer Prices***	3.2	12.4	-3.8	6.3 Oct
Unemployment Rate (%)***	1.4	1.4	1.5	0.9 Sep
Current Account Balance (US$bn)	15.7	2.2	21.9	14.0 Q3°
as a percentage of GDP	6.3	0.7	8.3	4.6
Real Effective Exchange Rate Index§	114.7	114.5	111.4	119.8 Oct

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

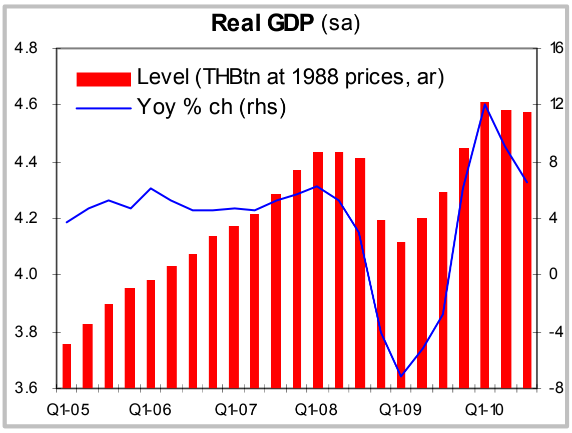
Financial Indicators				
Short Term Interest Rate pa (o/n)	3.8	3.3	1.2	1.6 Oct
Stock Exchange Index (Bangkok) (% change)*	6.5	-10.2	-15.4	37.4 29/11/10**

* Average over year; ** % change on 31/12/09

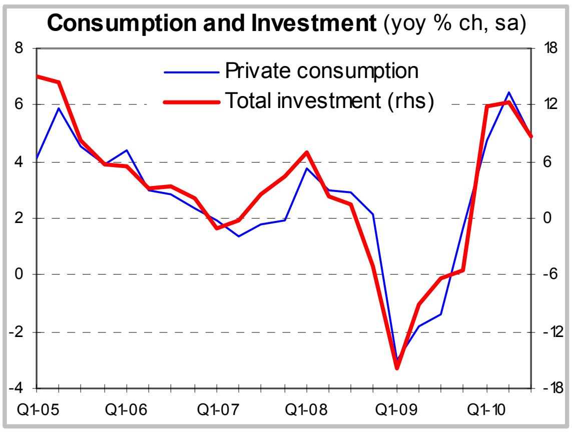
Sources: Bank of Thailand, National Economic and Social Development Board, BIS, daily press

- National accounts data show that Thailand landed in technical recession in Q3 10 as GDP growth continued to be negative (-0.2% qoq following the previous quarter -0.6% qoq), hurt by widespread flooding and the sharp appreciation of the *baht*. All domestic demand components declined albeit reversing previous particularly high expansion rates. In fact, the mild contraction in Q2-Q3 should not obscure the extent of the previous recovery.
- Nevertheless, the economy continues to be exposed to downside risks due to the still unresolved political crisis although a calmer environment has been prevailing in recent months. This has favoured a recovery in tourist arrivals which in September rose by 17% yoy bringing the cumulative number of arrivals in the first 9 months 13% higher than in the corresponding period last year. Needless to say, the sector remains clearly exposed to sudden reversal.
- Thanks to retreating food prices and a strong *baht* consumer price inflation eased to this year low 2.9% in October from last January peak of 4.1% while core inflation (i.e. ex food and energy) remains very low at 1.1%. Also producer price dynamics is slowing down sensibly. It remains to be seen whether last month floods, which have caused extensive agriculture damage, will spark another round of food price increases.
- The *baht* is now trading around 13-year highs, not too far from the levels prevailing before the 1997-98 Asian financial crisis. As a matter of fact, it has appreciated more than 10% so far this year, on the back of Thailand's solid growth momentum and also driven by continued rapid inflow of foreign capital in the local bond and equity market. This is causing serious concern to governing authorities because of the consequences on export performance. So far, export has continued to support growth but a slowing trend has of late emerged though it may be partly due to a less favourable statistical comparison: in September export dollar revenue growth slowed to a still robust 21.2% yoy down from the peak high 46.3% yoy of June.
- The benign inflation trend coupled with the *baht* strength are relieving pressure from the Bank of Thailand (BoT) to continue to raise interest rates, which, in turn would risk to spark further currency strength. This explains why the BoT kept the policy rate unchanged in its latest monetary policy meeting, late in October, albeit stating that hikes ahead could be possible. Should inflationary pressure resurface more strongly, then the Central Bank would likely have to resort to administrative measures.

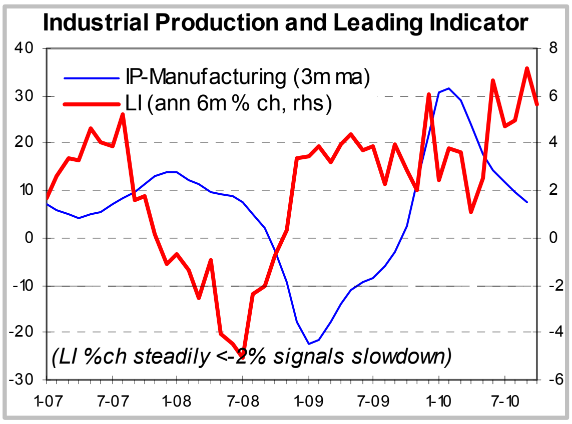
THAILAND



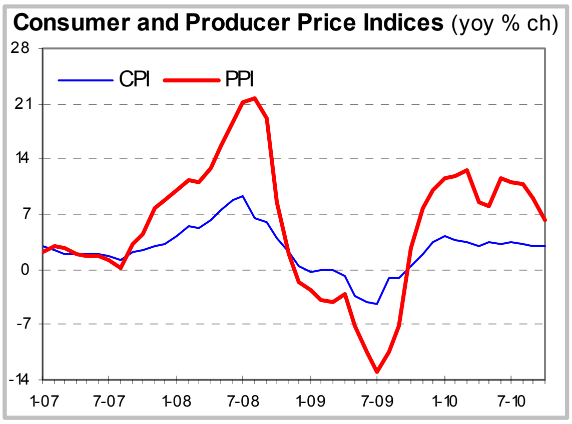
Real GDP (sa)



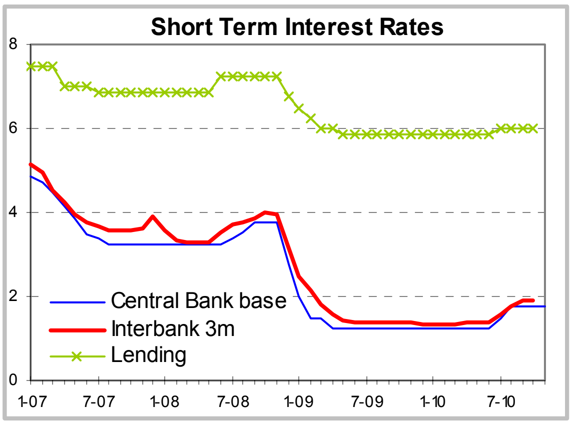
Consumption and Investment (yoy % ch, sa)



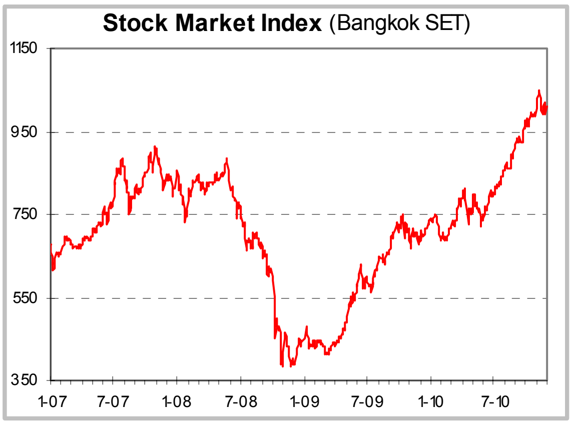
Industrial Production and Leading Indicator



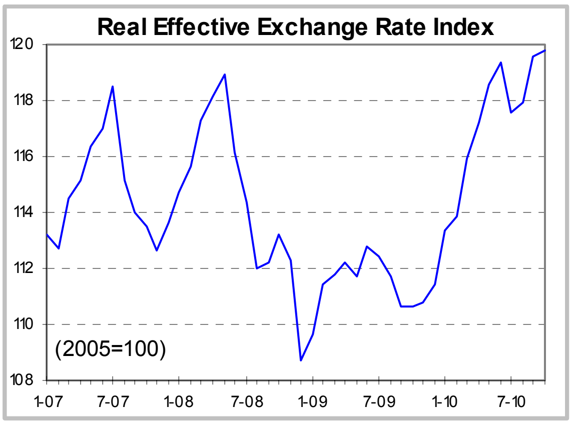
Consumer and Producer Price Indices (yoy % ch)



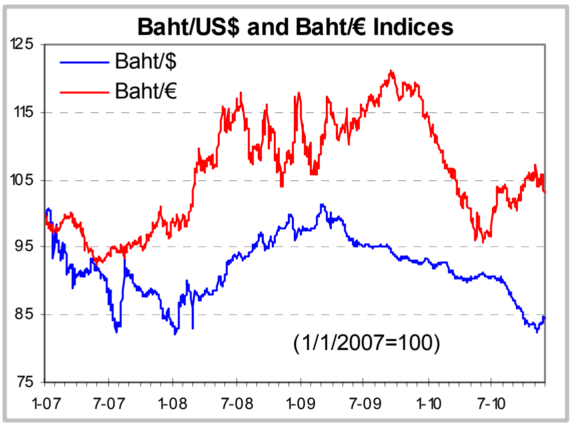
Short Term Interest Rates



Stock Market Index (Bangkok SET)



Real Effective Exchange Rate Index



Baht/US$ and Baht/€ Indices

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

INDIA

Real Indicators*	2007	2008	2009	Latest
GDP**	9.5	7.4	6.7	8.9 Q3
Industrial Production – Manufacturing	10.6	7.8	8.1	4.5 Sep
Construction Production (Gross Value Added)	11.0	6.3	5.7	8.8 Q3
Consumer Prices	6.4	8.3	10.9	9.7 Oct
Wholesale Prices	5.0	8.7	2.1	8.6 Oct
Current Account Balance (US$bn)**	-8.1	-31.0	-26.6	-47.7 Q2°
as a percentage of GDP	-0.8	-2.6	-2.3	-3.6
Real Effective Exchange Rate Index§	104.7	100.2	94.3	105.7 Oct

* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; ** sa; ° latest 12 months up to Q2 included; § 2005=100

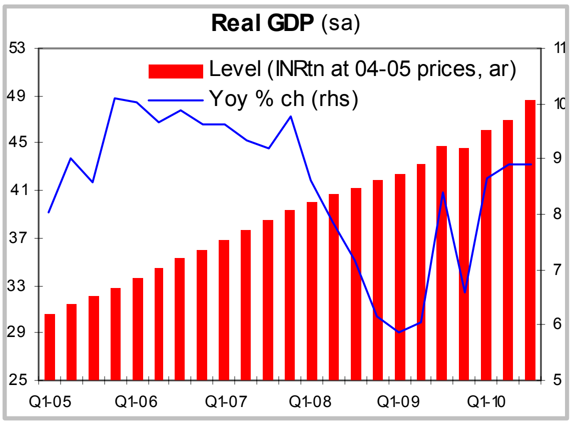
Financial Indicators				
Short Term Interest Rate pa (91-day T-bills)	7.2	7.7	3.7	6.6 Oct
Policy Rate (Repo)	7.7	8.0	4.9	6.0 Oct
Stock Exchange Index (Mumbai) (% ch)*	35.6	-6.9	-5.7	11.1 29/11/10**

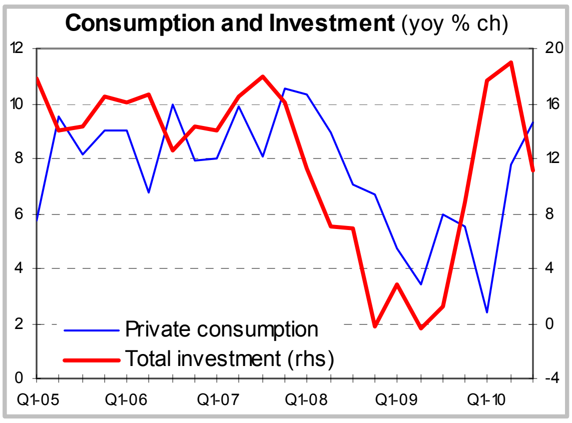
* Average over year; ** % change on 31/12/09

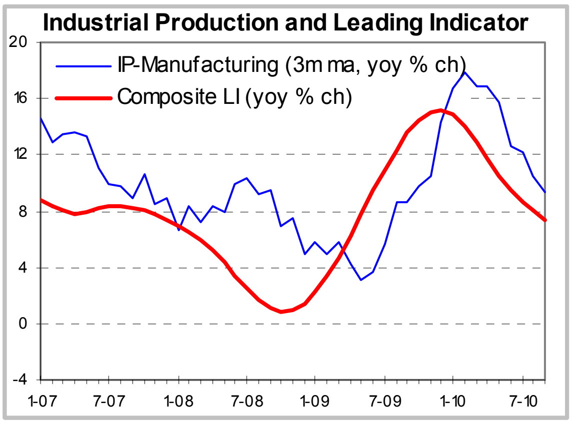
Sources: Reserve Bank of India, BIS, Office of Economic Advisor, Labour Bureau, Statistics India, daily press

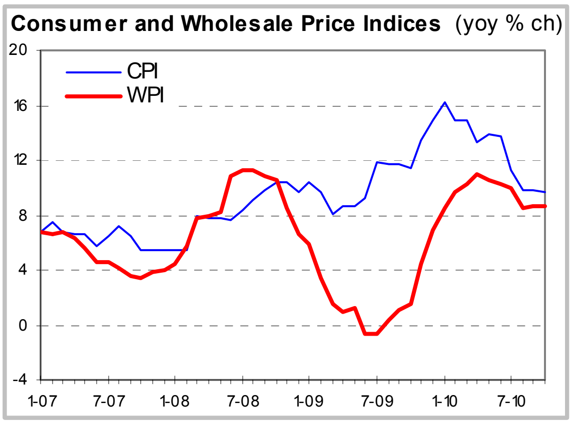
- Real GDP growth accelerated to 8.9% yoy in both Q2 and Q3 10, the highest figure in more than two years. Growth was broad-based across sectors in Q3: agriculture is slowly recovering from the 2009 drought, the worst in 37 years, and grew by 4.4% yoy following the slower +2.5% in Q2, while the most buoyant sectors continued to be manufacturing and trade, hotels, transport and communication, up by 9.8% and 12.1% yoy, respectively. Construction decelerated slightly (to 8.8% yoy from the previous 10.3% yoy) with still steady expansion in building and public infrastructure. On the expenditure side, private consumption shot up at 9.3% yoy while investment moderated its pace to 11.1% yoy down from the previous quarter stellar +19% yoy pace.
- Most recent indicators show that the economic momentum remains sustained driven by positive business sentiment and healthy consumption although it is set to moderate due to tighter monetary policy. Industrial production is on a decelerating trend and has proved volatile in recent months mainly due to wide fluctuations in the production of capital goods.
- The central bank continues to tighten monetary policy in order to tame inflation as food price increases have remained stubbornly high despite an adequate monsoon season. The latest policy rate hike was early in November, the sixth such move so far this year, which brought the repo rate up to 6.25% (totalling a rise of 200 cumulative basis points this year). In fact, price pressures have started easing and, on the communiqué delivered with the latest rate hike, the central bank stated that monetary policy is now “close to normal” hinting that it may be nearing the end of its aggressive tightening cycle.
- India's fiscal performance in the first five months of the fiscal year 2010/11 (i.e. April/August) was better than expected thanks to strengthening tax revenues and expenditures in line with targets, but also due to the highly successful auction of third-generation telecommunication licences which benefited public finances with a higher-than-budgeted windfall (US$21.6bn). This notwithstanding, fiscal consolidation remains a key objective to grant economic sustainability.
- The exceptional resilience and recovery of the Indian economy, coupled with robust investor sentiment, have kept attracting strong foreign inflows resulting in a good performance of the Indian stockmarket. Most recently, however, due to increased global financial instability the latter has lost some ground. The substantial capital inflows also ensure that the widening current account does not pose significant risks.
- Following a steady appreciation of the rupee between March 2009 and April this year, the currency has somewhat eased amid increased volatility. Coupled with relatively high inflation the real exchange rate keeps appreciating implying loss of export competitiveness.

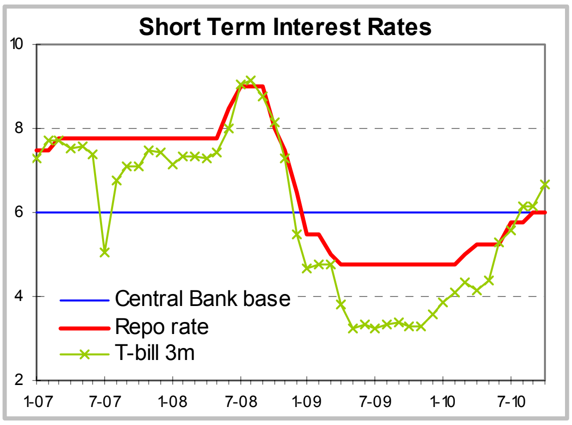
INDIA

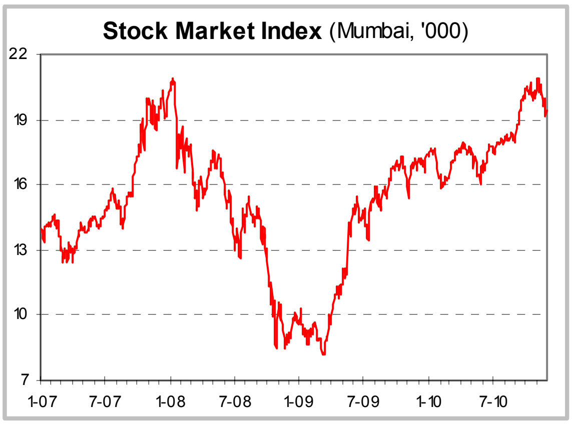


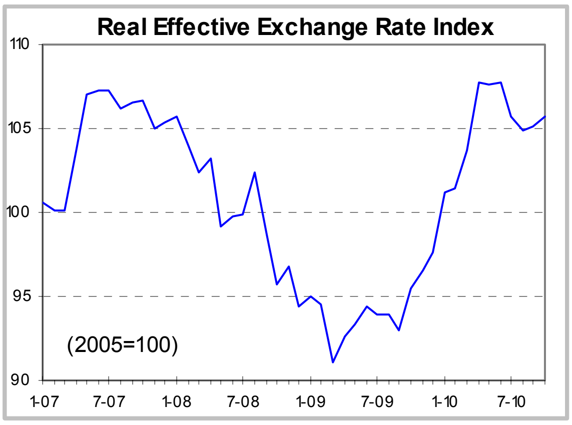


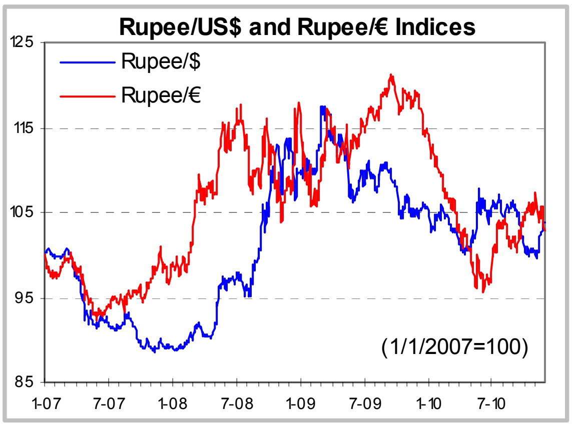












Sources: Reserve Bank of India, Office of Economic Advisor, Labour Bureau, Statistics India, BIS, daily press

CHINA

Real Indicators*	2007	2008	2009	Latest
GDP	13.0	9.6	9.1	9.6 Q3
Industrial Production	17.9	12.5	11.6	13.1 Oct
Consumer Prices	4.8	5.9	-0.7	4.4 Oct
Producer Prices	3.1	6.9	-5.4	5.0 Oct
Trade Balance (US$bn)	315.4	360.7	249.5	182.9 Q3°
as a percentage of GDP	9.0	8.0	5.0	3.3
Real Effective Exchange Rate Index§	105.2	114.1	118.7	118.2 Oct

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q2 included; § 2005=100

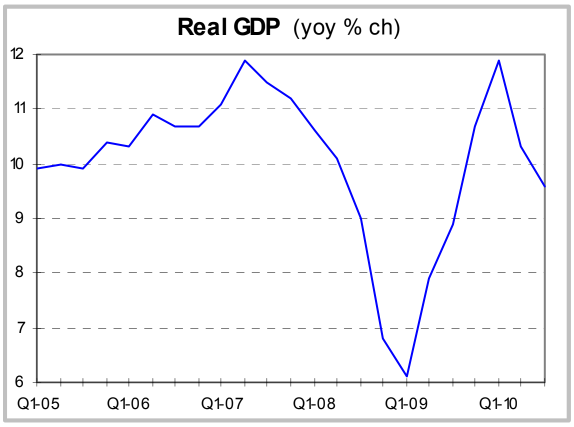
Financial Indicators	2007	2008	2009	Latest
1Y Lending Rate	6.8	7.1	5.3	5.6 Nov
Stock Exchange Index (Shanghai) (% ch)*	160.7	-27.3	-10.4	-12.5 29/11/10**

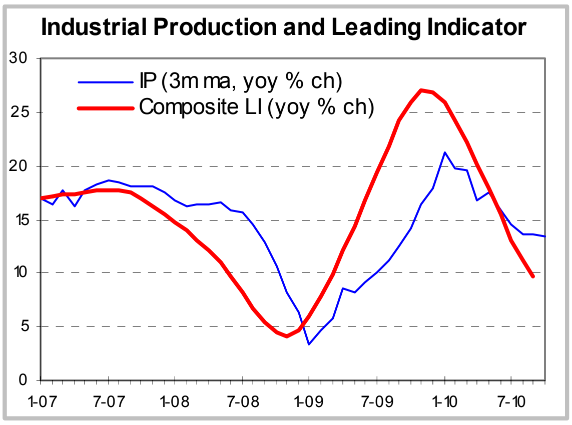
* Average over year; ** % change on 31/12/09

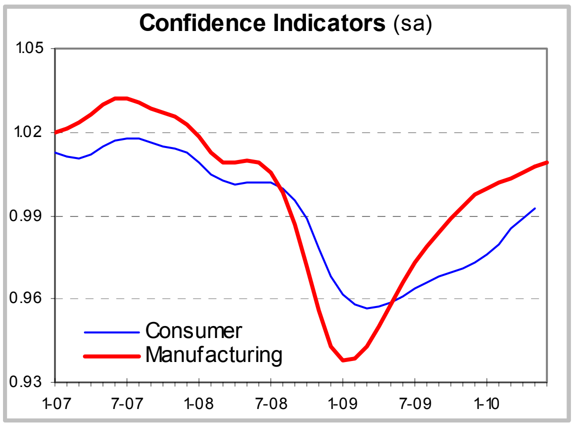
Sources: National Bureau of Statistics, OECD, EIU, People's Bank of China, daily press

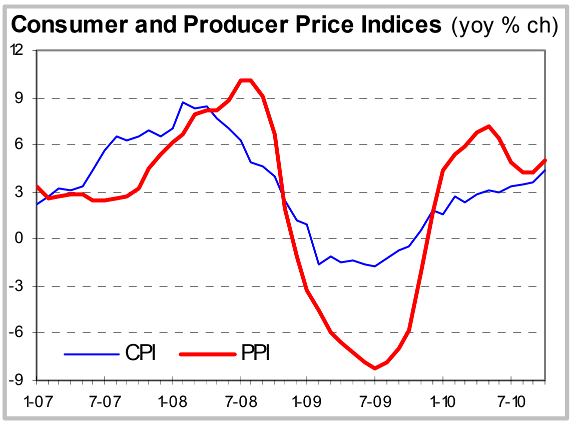
- GDP growth continued to slow down in Q3 10 to 9.6% yoy down from the previous quarter 10.3% yoy led by a strong industrial sector, on the supply side, and by persistently buoyant investment activity, on the demand side.
- Albeit still growing at double-digit rates industrial production continued to decelerate in October (+13.1% yoy down from the peak high of +21.3% in January).
- Also consumption and exports have performed well in recent months. Nominal retail sales, a proxy for household consumption, expanded by 18.6% yoy in October, driven by low real interest rates and healthy income growth. Exports continued to expand rapidly, although decelerating sensibly due to the higher base of comparison (+22.9% yoy in October down from the peak high of +48.5% in May).
- While efforts to engineer a soft-landing in the overall economy have managed to bring GDP growth down to single-digit territory, the various administrative restrictions imposed in the housing market since April have had an only limited impact.
- In fact, while over the summer months there were clear indications that activity and prices were somewhat slowing, in September and October the residential market appears to have rebounded with sales back again at double-digit yoy growth rates. Also nominal investment in real estate has remained stable at over 35% yoy growth rates (+36.5% in the first 10 months compared to +36.4% in the first 9 months). There is also evidence of strong foreign investment in the residential sector which the government is now trying to limit.
- Inflation hit a more than two-year peak in October as consumer prices rose 4.4% on a year earlier driven by double-digit food price increases. Also liquidity growth continues unabated and has even re-accelerated over the past few months due to larger inflows of foreign funds. New lending in the first 10 months totalled 6.88tn *yuan* already very close to the officially permitted level of 7.5tn for the whole 2010.
- Owing to concerns about inflationary trends and to the above resilience of the real estate the Central Bank hiked the reference interest rate on October, 19th, the first such move since 2007. The decision, which took market somewhat by surprise, marks a departure from previous strategy, so far focused only on administrative tools (such as lending quotas) and higher reserve requirements (RR) for banks – the latest such RR rate hike was implemented just a few days before the policy rate hike and, later on, twice in November.
- Following the announcement last June of the de-pegging of the *renminbi* from the US$ and amid growing international pressures the currency has been allowed to appreciate only mildly, just above 2.5%, with most of it happening in the past two months. It appears also unlikely that forex policy would easily abide to such forces.

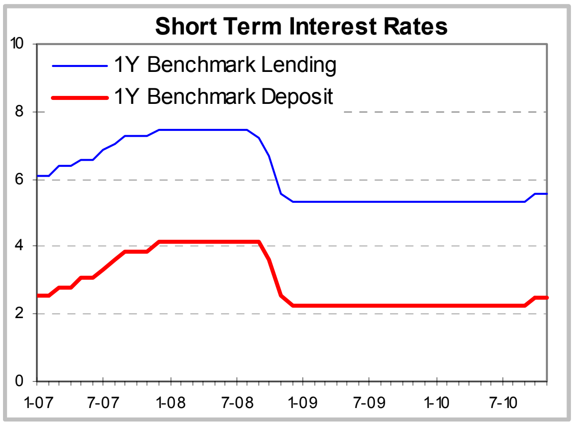
CHINA

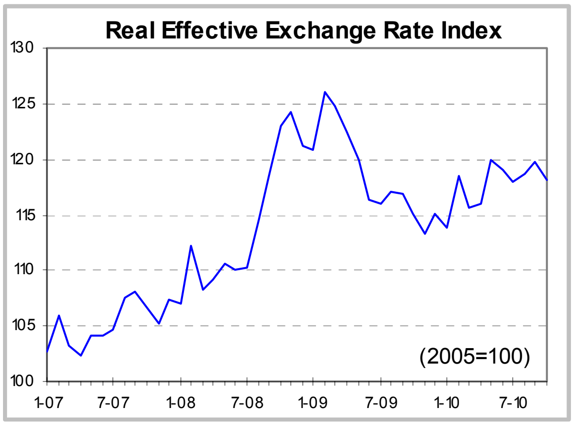


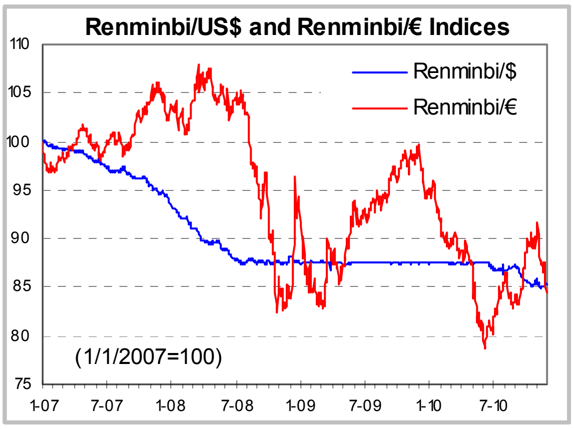












Sources: National Bureau of Statistics, OECD, EIU, People's Bank of China, daily press

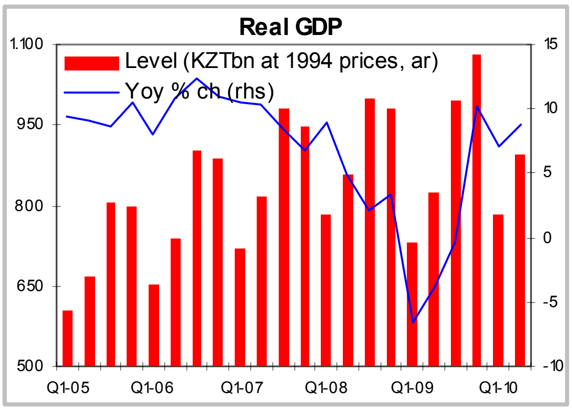
KAZAKHSTAN

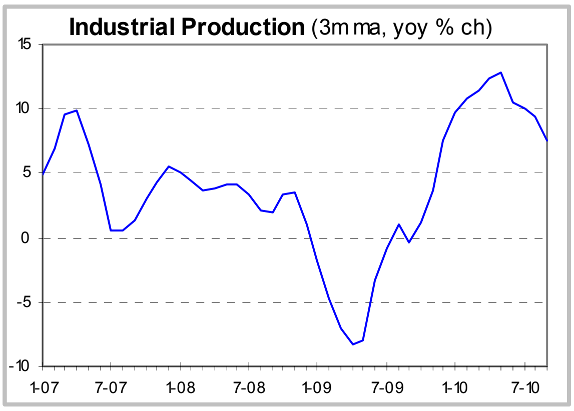
Real Indicators*	2007	2008	2009	Latest
GDP	8.9	3.3	1.2	8.7 Q2
Industrial Production	5.0	2.7	-0.7	1.2 Sep
Consumer Prices	10.8	17.1	7.3	7.3 Oct
Producer Prices	12.4	36.8	-22.2	10.8 Sep
Unemployment Rate (%)	7.2	6.6	6.6	5.6 Q3
Current Account Balance (US$bn)	-8.3	6.3	-4.2	4.6 Q2°
as a percentage of GDP	-7.9	4.7	-3.9	3.7
Real Effective Exchange Rate Index§	106.5	112.1	104.2	108.2 Sep
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q2 included; § 2000=100				
Financial Indicators				
Refinancing Rate (end of period)	9.2	10.8	8.3	7.0 Oct
Short Term Interest Rate pa (<1 year)	5.6	6.3	4.6	1.3 Oct
Exchange Rate Tenge/$	122.5	120.3	147.6	147.6 Oct

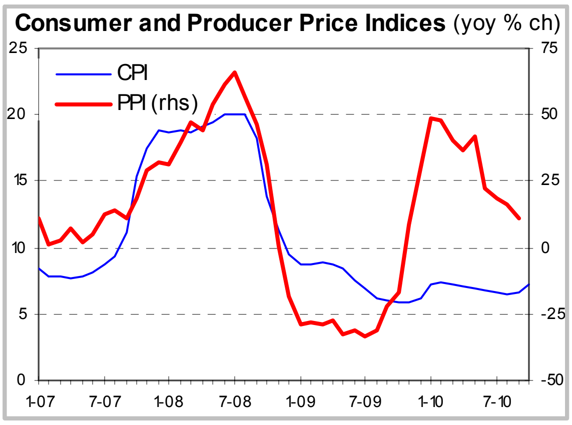
Sources: National Bank of Kazakhstan, EIU, IMF, Interstate Statistical Committee of the CIS

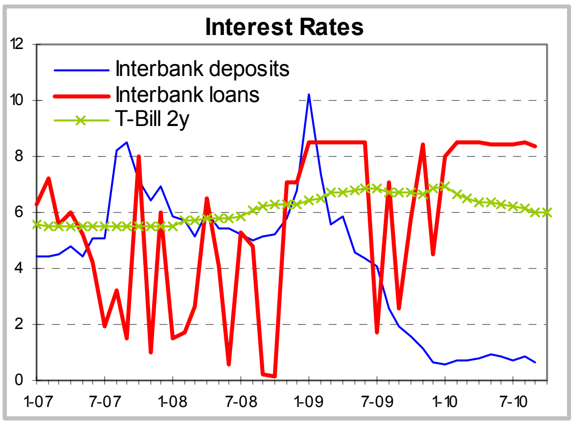
- Real GDP grew by 8% yoy in H1 10, which translates into an estimated 8.8% in Q2 10, much stronger than the previous quarter 7.1% yoy, driven by robust industrial activity particularly in manufacturing (respectively up by 12.4% and 22.3% yoy in H1 10). The construction sector kept contracting albeit at a milder pace (-3.7% in H1 10 following -8.7% in Q1 10). In this respect, there are weak signs that the real estate is beginning to recover from the bubble burst of the past two years as there have been small increases in apartment prices and in the outstanding mortgages.
- From the expenditure side, while household consumption kept gaining momentum available data signal a sharp deceleration in investment activity (+0.5% yoy in H1 10 following 8.3% in Q1 10). Exports boomed in H1 10 jumping at +10.7% yoy (+5.3% yoy in Q 10).
- Preliminary indications point to continued strength in industrial production in the months through September although a slowdown is in the cards due to a less favourable base effect.
- In the past two months consumer price inflation has accelerated to 7.3% yoy in October, up from the year-low 6.5% yoy in August, also due to rising food prices. In order to prevent excessive food price increases, following last summer drought and fires in Russia which destroyed part of the grain harvest there, the government has imposed a ban in October on selected food exports, including grain, for six months.
- Credit growth is still negative and portfolio quality remains low: the total volume of loans granted by banks fell 5.9% yoy in the months through October. However, recent surveys on banking lending practices signal that conditions are being gradually relaxed while the restructuring of foreign debt of two major banks (BTA and Alliance) has been completed successfully (including the forgiveness of foreign debt worth around US$11bn, or 8.5% of GDP).
- While the government is preparing to phase in fiscal tightening, spending under the “Accelerated industrialization and modernization programme” should continue to be focussed on infrastructure investment.
- The European Bank for Reconstruction and Development (EBRD), the largest foreign investor in the country, is expected to expand further its lending activities in Kazakhstan. Until the end of 2011 investments in projects that cover a broad range of sectors (including infrastructure, finance, agriculture and the corporate sector in general) should amount to a total of US$1.4bn.

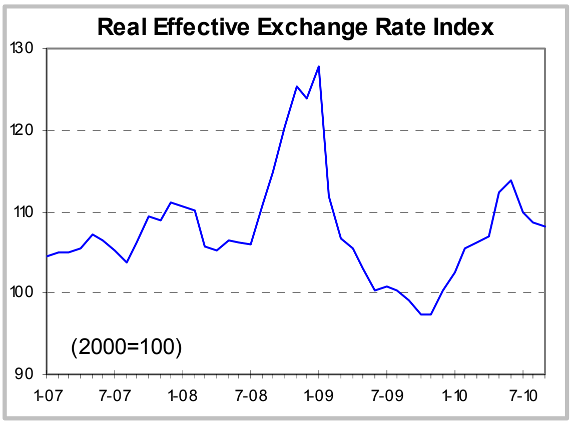
KAZAKHSTAN

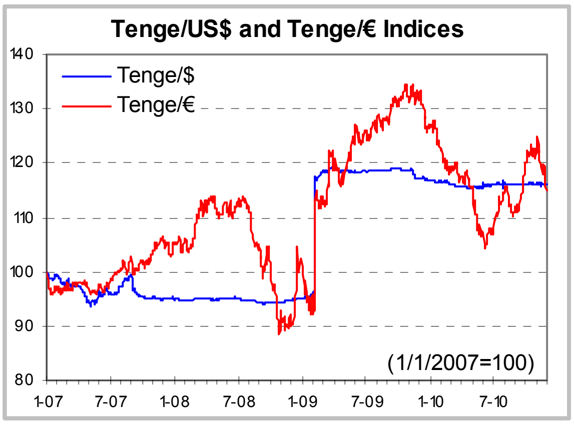












Source: National Bank of Kazakhstan