

Economic Profile in ITC Group Countries

N. 3 November, 25th 2011

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 all information up to November, 25th 2011

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Highlights

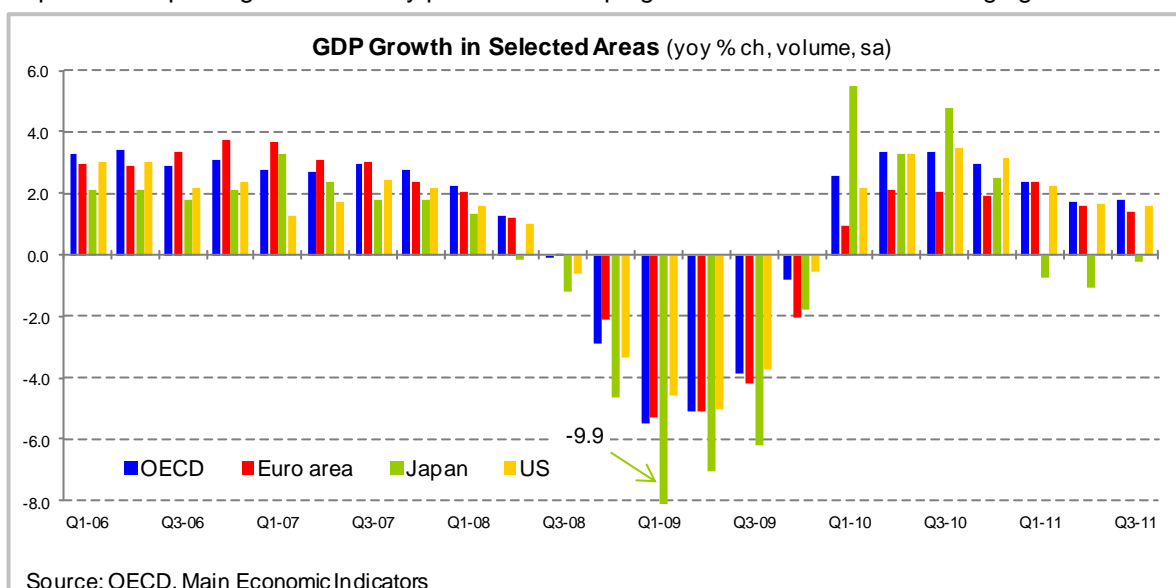
- Two major issues have come to the fore since last summer: the weakening of the world economy, on the one hand; the worsening of the sovereign crisis in a number of euro countries, on the other hand. The two issues are strictly intertwined.
- As for the first one, in Q3 economic growth was still lacklustre in Europe (as in Q2, below 1% on yearly basis); signs of deceleration have also surfaced in most emerging economies. Instead, better performances were recorded in Japan and the US, the former experiencing a post-tsunami rebound, the latter enjoying an unexpected (and temporary?) recovery of consumption.
- Fiscal austerity in many countries, an inventory drawdown, weak labour markets, still low levels of consumer confidence with ensuing increase of savings rates, tight monetary policies in many emerging countries are at the roots of these disappointing developments.
- In addition, leading indicators, confidence levels and stock prices seem all heading towards further weakening of the economic climate, so that there is a widespread sentiment that the current quarter and most likely also the next one could fall in negative territory (at least in Europe).
- Raw material prices – particularly industrials – have eventually reacted to declining global demand conditions, but in the case of oil, whose price has remained in the range (or above) 110 \$/b, mainly due to supply concerns.
- However, inflation has remained stubbornly high in most industrial countries given the completion of the pass-through to final consumption levels of past basic materials price increases and still high energy prices. Seen in perspective, inflation should ease considerably.
- The end-of-October meeting of the European leaders has not been able so far to stem the crisis of the euro sovereigns. Italy and Spain are now at the center-stage but also spreads on France, Belgium and even Austria treasuries (all these countries are triple A rated) have soared sensibly which may imply that the same euro currency is now considered under threat by financial markets.
- Also given uncertain economic policies (too tight in the euro area due to fiscal austerity and credit crunch conditions in many countries, squeezed on the public debt issue in the US, moving again towards loosening in some important emerging countries) currency markets have entered an extended volatility phase, which does not seem set to shrink any more soon.
- Particularly the crucial \$/€ exchange rate has been affected by the above. Two weaknesses are in fact at stake. Currently, the Eurozone turmoil is the dominant driver but the unresolved US disequilibria could easily resurface and bring the dollar down should the euro crisis be eventually settled down.

GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)	2008	2009	2010	Latest
GDP: OECD	0.2	-3.8	3.1	1.8 Q3
Euro Area	0.4	-4.2	1.8	1.4 Q3
US	-0.3	-3.5	3.0	1.5 Q3
Japan	-1.2	-6.3	4.1	-0.2 Q3
Inflation: US	3.8	-0.4	1.6	3.5 Oct
Euro Area	3.3	0.3	1.6	3.0 Oct
Oil Price Level (Brent, \$/barrel)	97.7	61.9	79.6	109.6 Oct
(yoy % ch)	34.3	-36.7	28.7	32.5

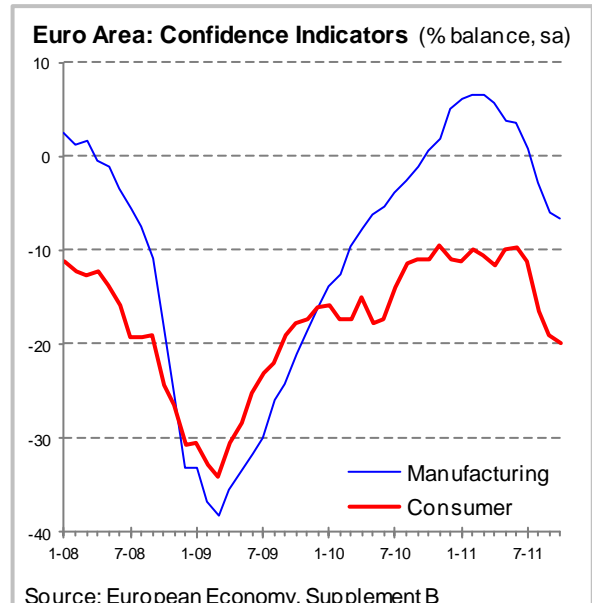
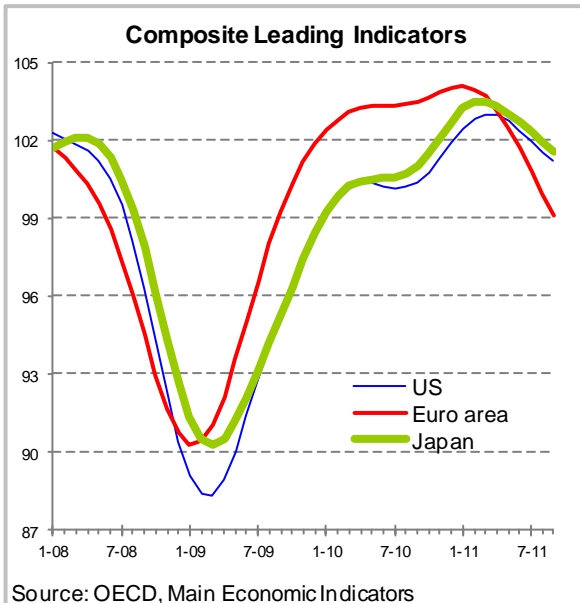
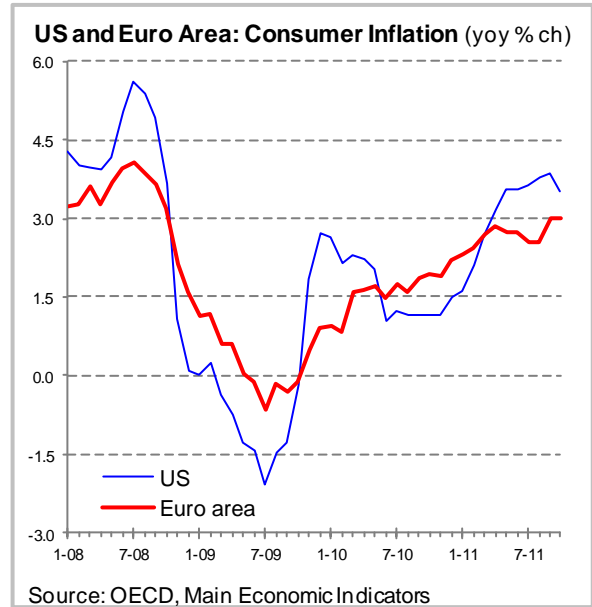
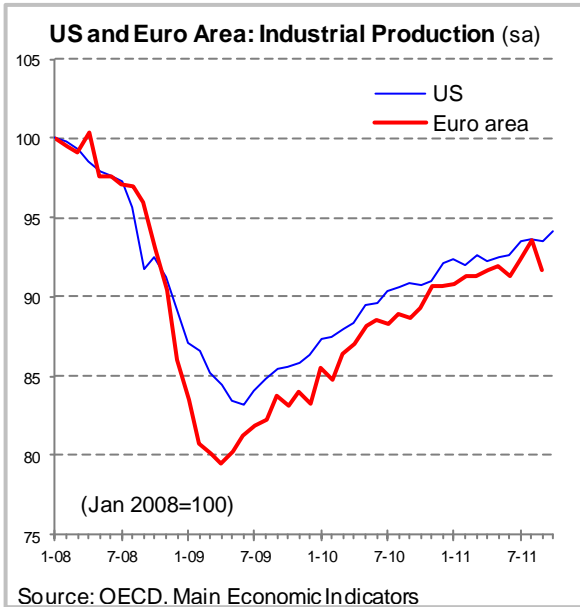
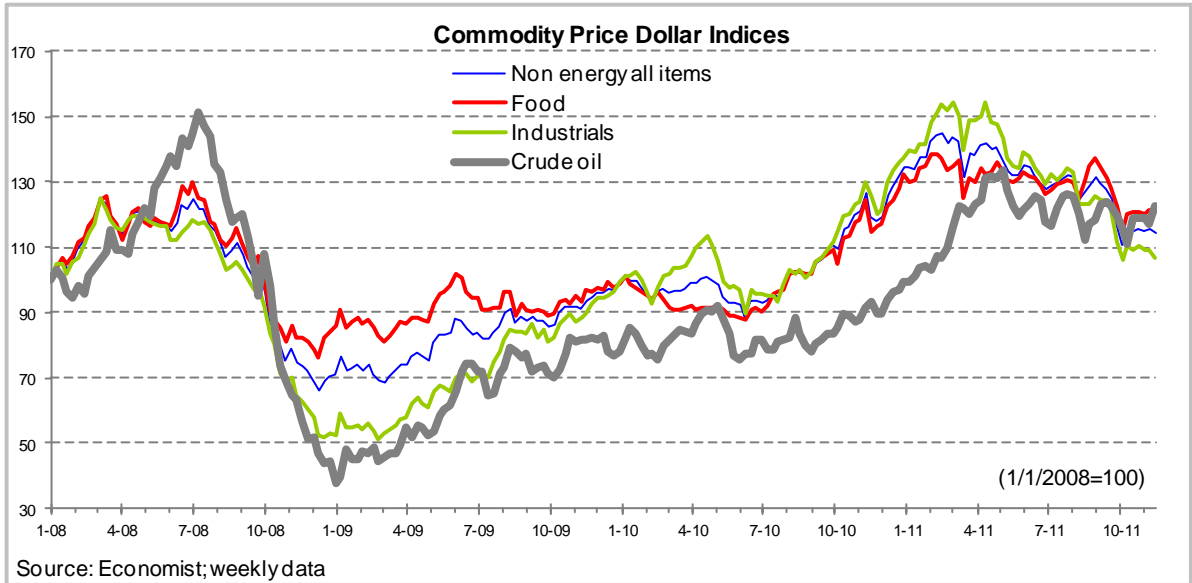
Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, US Energy Information Administration

- Global economic conditions have deteriorated in recent months and a recessionary phase is in the pipeline in a number of countries. The recovery in advanced economies has been weaker than expected amid tighter fiscal policy, insufficient job creation and low – and falling - confidence levels. Signs are emerging of deteriorating momentum also in the emerging area while tensions in the Middle East and North Africa (MENA) region are still unresolved. In its last World Economic Outlook the IMF has already revised down world GDP growth for both this and the next year citing slower growth and increasing financial and fiscal risks. Most analysts have followed suit, displaying mounting pessimism, with even larger downward revisions.
- The euro area is currently the greatest risk to global growth. The debt sustainability issue of peripheral countries has spread to Italy which is actually “too big to fail” but also “too big to be bailed out”. There are ongoing frenzy negotiations among EU leaders to find a solution which should not be based only on harsh fiscal tightening. Many countries otherwise risk to be locked in an austerity/recession trap with the inevitable final consequence of the collapse of the euro project. This would have systemic effects all over the globe via the banking system.
- Commodity prices are sharply below their spring peaks; particularly industrial prices are down by 30% signalling a softening momentum in global industrial production. Oil remains extremely volatile and still well above 100\$/bl also reflecting persisting geo-political risks in the MENA region (including the recent Israeli threat of retaliatory actions against Iran).
- Although inflation has somewhat risen in a number of advanced countries, underlying price pressures are waning given their slowing momentum and low capacity utilisation. Lower commodity prices and past tighter monetary policies are helping curb inflation in some emerging economies.



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REAL INDICATORS



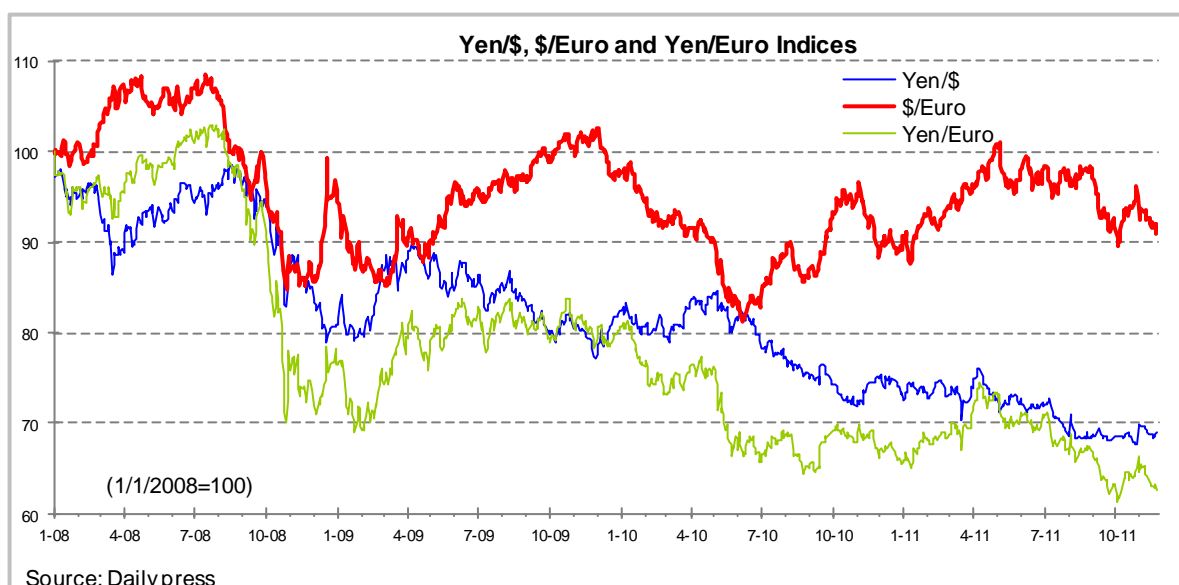
GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2008	2009	2010	Latest
Dollar/Euro Exchange Rate	1.471	1.394	1.326	1.400 *
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)	2.50	1.00	1.00	1.25 09/11/11
Long Term Interest Rate (10y government bonds, year average):				
- US	3.66	3.26	3.22	2.15 Oct
- Euro Area	4.36	4.03	3.79	4.09 Oct

* Average from 3/1/2011 to latest available data

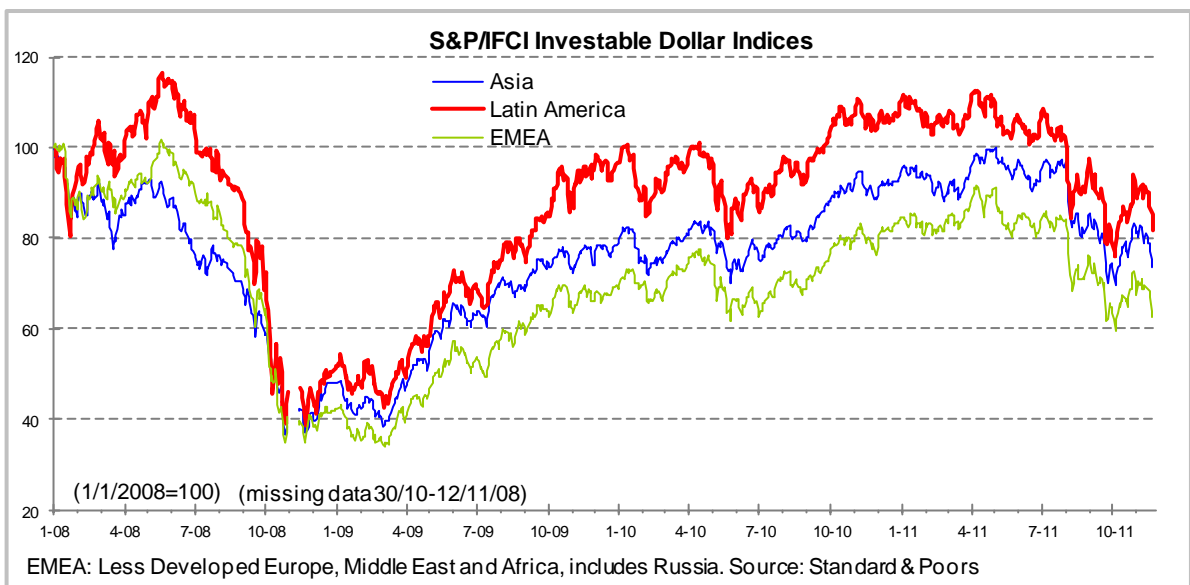
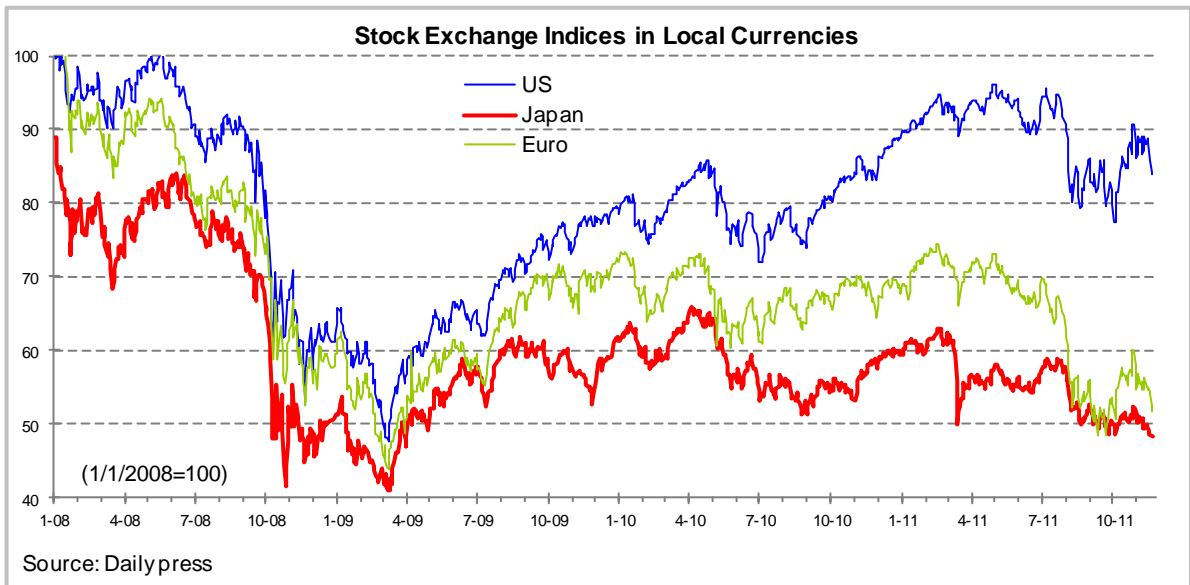
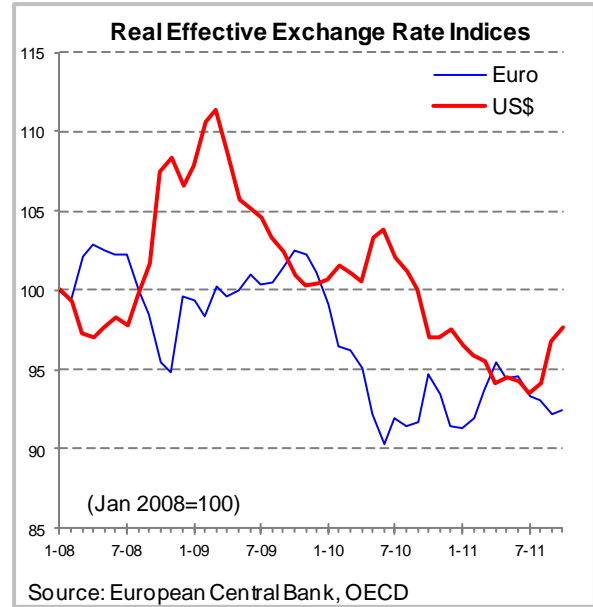
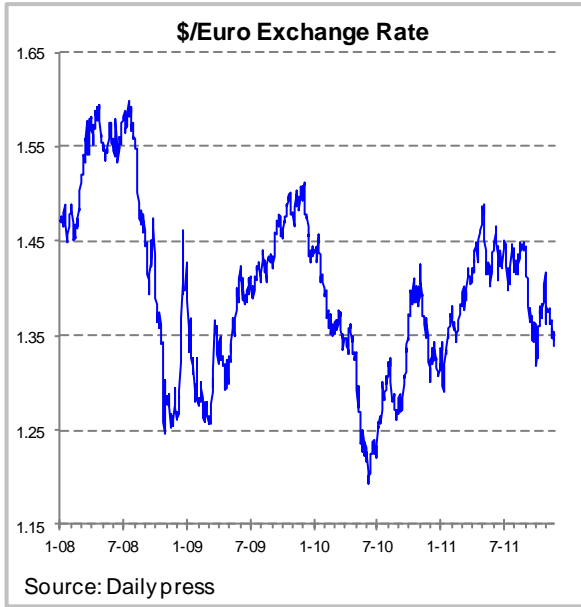
Sources: European Central Bank and Federal Reserve Bank

- Monetary conditions are diversified all over the world. In the US, the Fed has continued along its loose monetary stance maintaining rates at record lows and announcing this will last until 2013. A measure, named "operation twist", aimed at lowering long-term bond yields was also launched in September which, however, does not pump new money into the system. Given that T-bond yields are already at record lows, the effectiveness of "operation twist" has been questioned.
- In the euro area, the newly appointed governor Mr. Draghi has cut the policy rate in early November given weakening economic momentum in the area. Many countries in the area are facing a credit-crunch. The banking sector is undergoing extremely high stress given the negative impact of the sovereign debt crisis on their asset values and their difficulty to raise funds themselves. In emerging markets a long tightening cycle has been ongoing and in many cases has ended.
- Financial markets continue to be jittery worldwide as the euro area sovereign crisis has deepened recently putting the same euro existence under threat. Current yields on Italian sovereign are around 7% which would become rapidly unsustainable given its debt is almost €2tn, around 40% of which is held by non-residents. The October, 27th agreement at EU level included a commitment to increase private-sector "haircuts" on holdings of Greek sovereign debt, to recapitalise weak European banks, and to boost the effective financial firepower of the bail-out fund known as the European Financial Stability Facility (EFSF). As of today, this agreement appears still insufficient to calm markets while discussions are ongoing on the actual shape and financial depth of the EFSF, the introduction of the Eurobonds and the role of the ECB: on this latter issue, the confrontation is the harshest between hawks and doves, whereas the issue at stake is the role of ultimate lender of the bank.

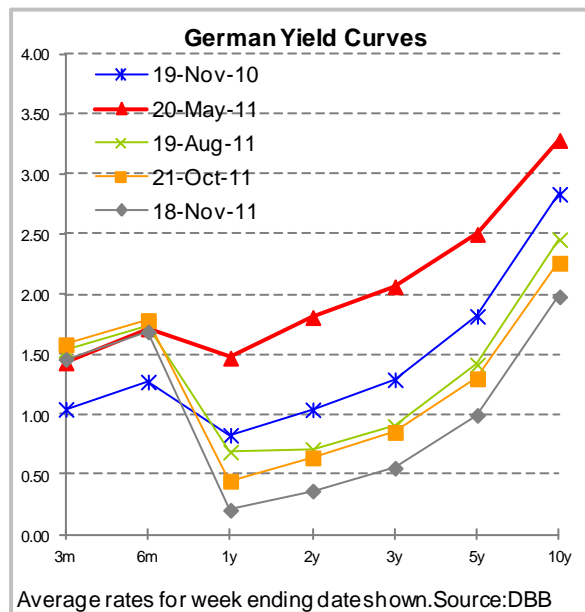
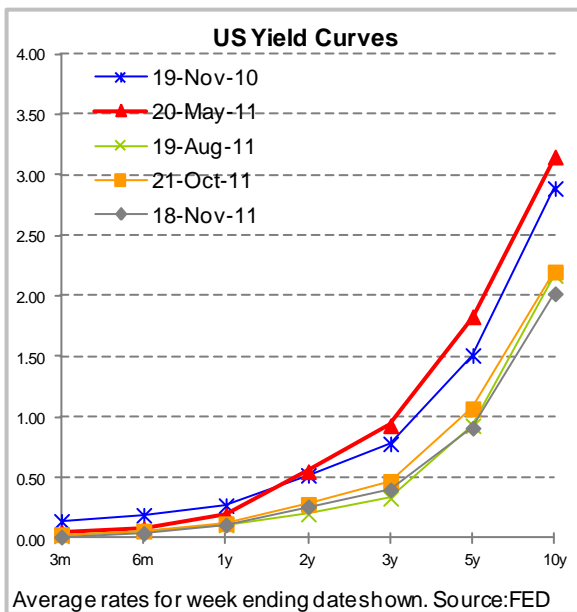
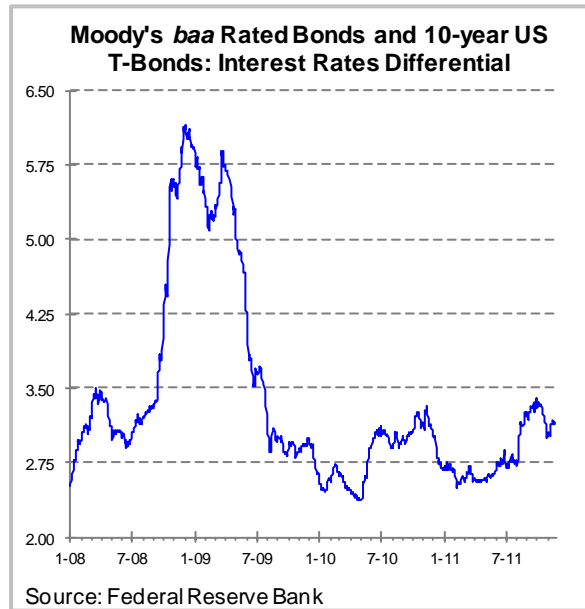
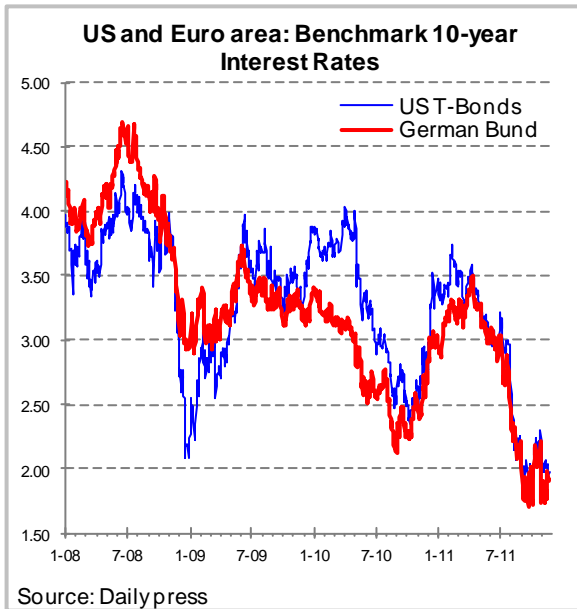
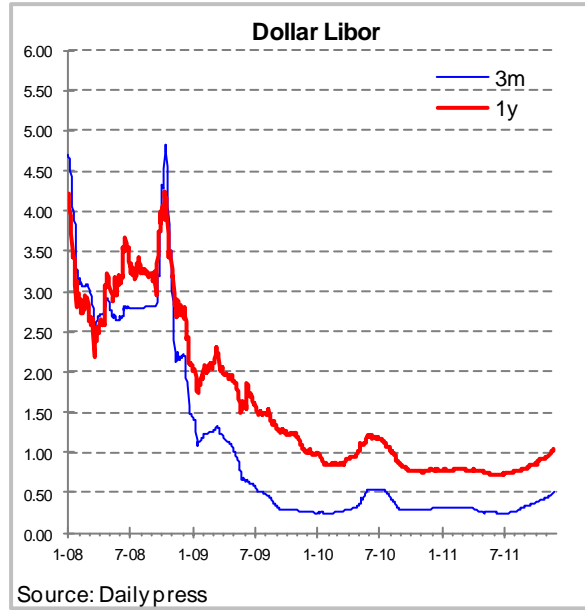
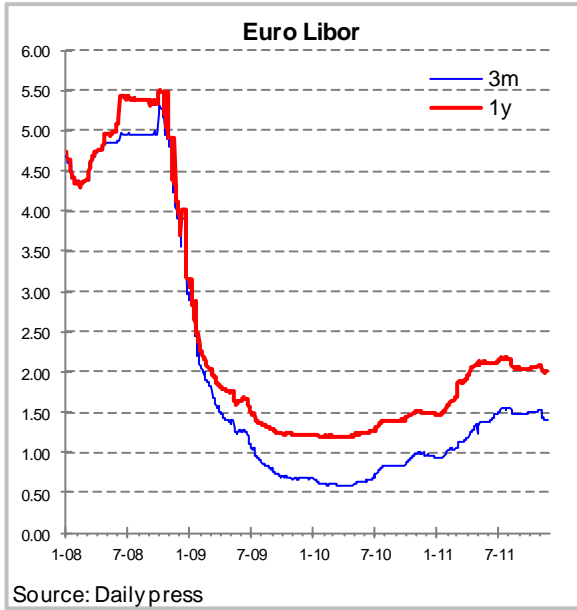


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FINANCIAL INDICATORS

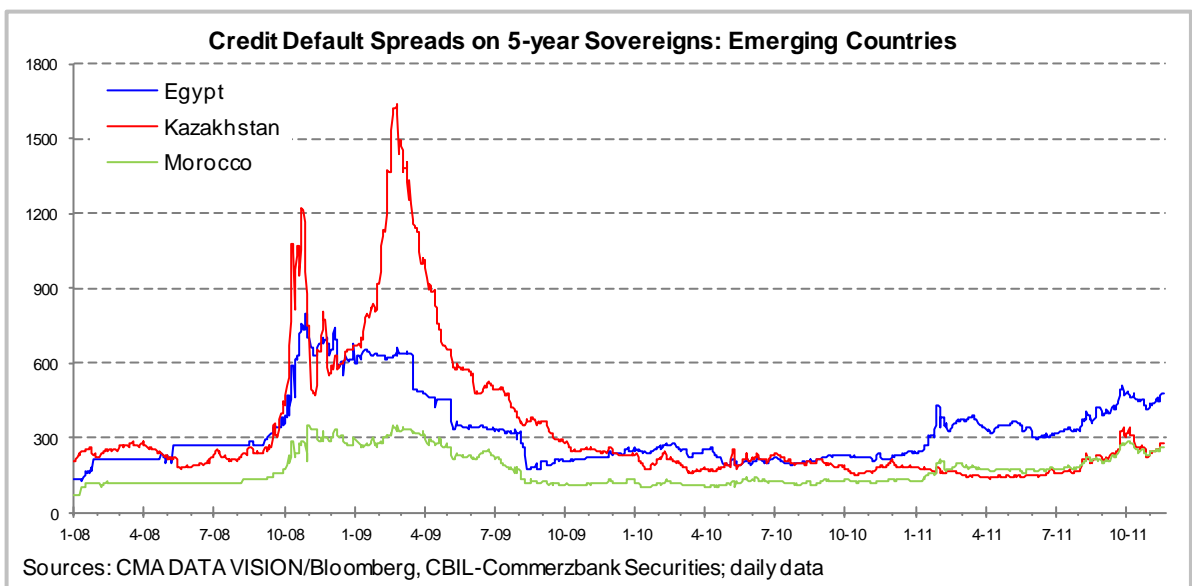
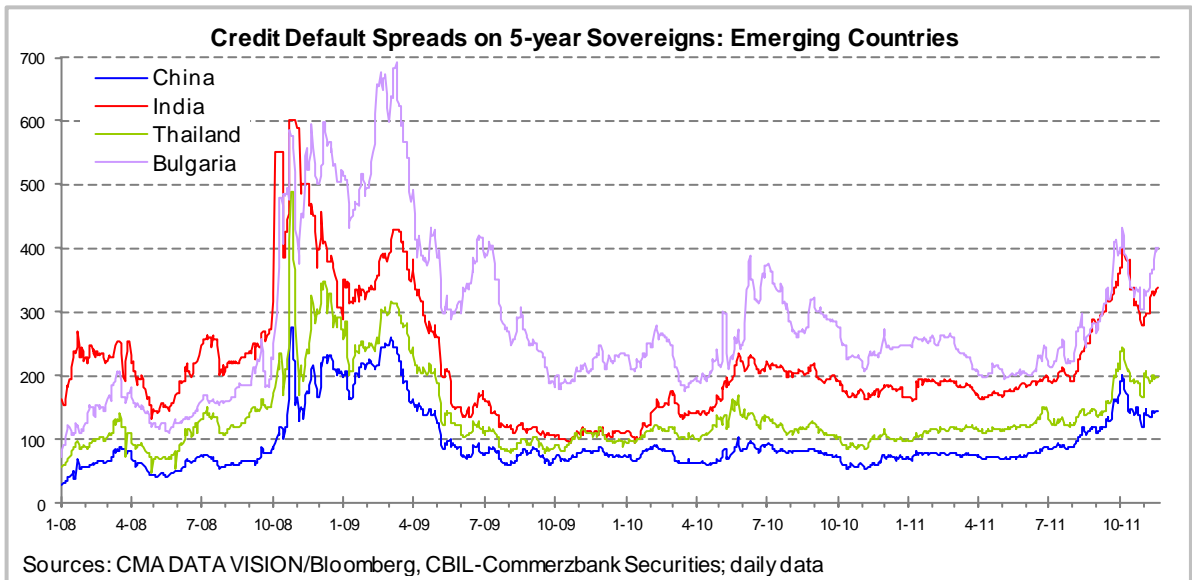
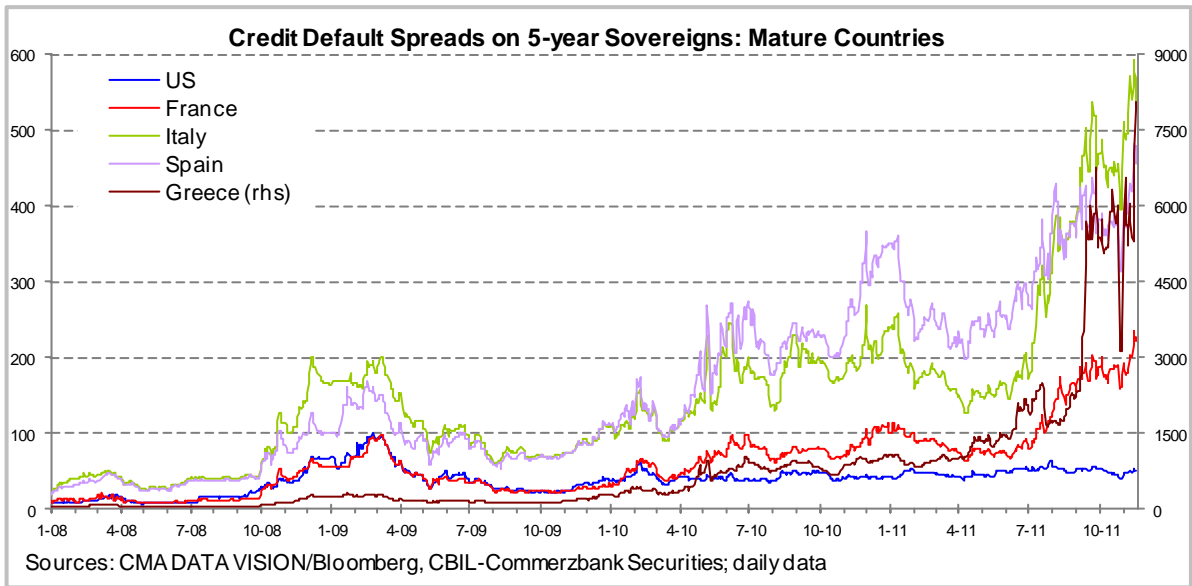


FINANCIAL INDICATORS



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FINANCIAL INDICATORS



UNITED STATES

Real Indicators*	2008	2009	2010	Latest
GDP	-0.3	-3.5	3.0	1.5 Q3
Industrial Production	-3.7	-11.2	5.3	0.7 Oct**
Construction Investment	-8.6	-17.3	-8.6	-0.4 Q3
Consumer Prices***	3.8	-0.4	1.6	3.5 Oct
Producer Prices – Finished Goods***	6.3	-2.6	4.2	5.9 Oct
Hourly Earnings – Manufacturing***	2.8	2.8	2.0	1.6 Oct
Standardised Unemployment Rate (%)	5.8	9.3	9.6	9.0 Oct
Current Account Balance (US\$bn)	-677.1	-376.6	-470.9	-469.9 Q2°
- as a percentage of GDP	-4.7	-2.7	-3.2	-3.2
Real Effective Exchange Rate Index [§]	90.5	94.3	90.1	86.6 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)	2.97	0.55	0.31	0.37 Oct
Long Term Interest Rate pa (benchmark 10y)	3.66	3.26	3.22	2.15 Oct
Stock Exchange (S&P 500) Index (% ch)*	-17.2	-22.5	20.3	-7.1 23/11/11**

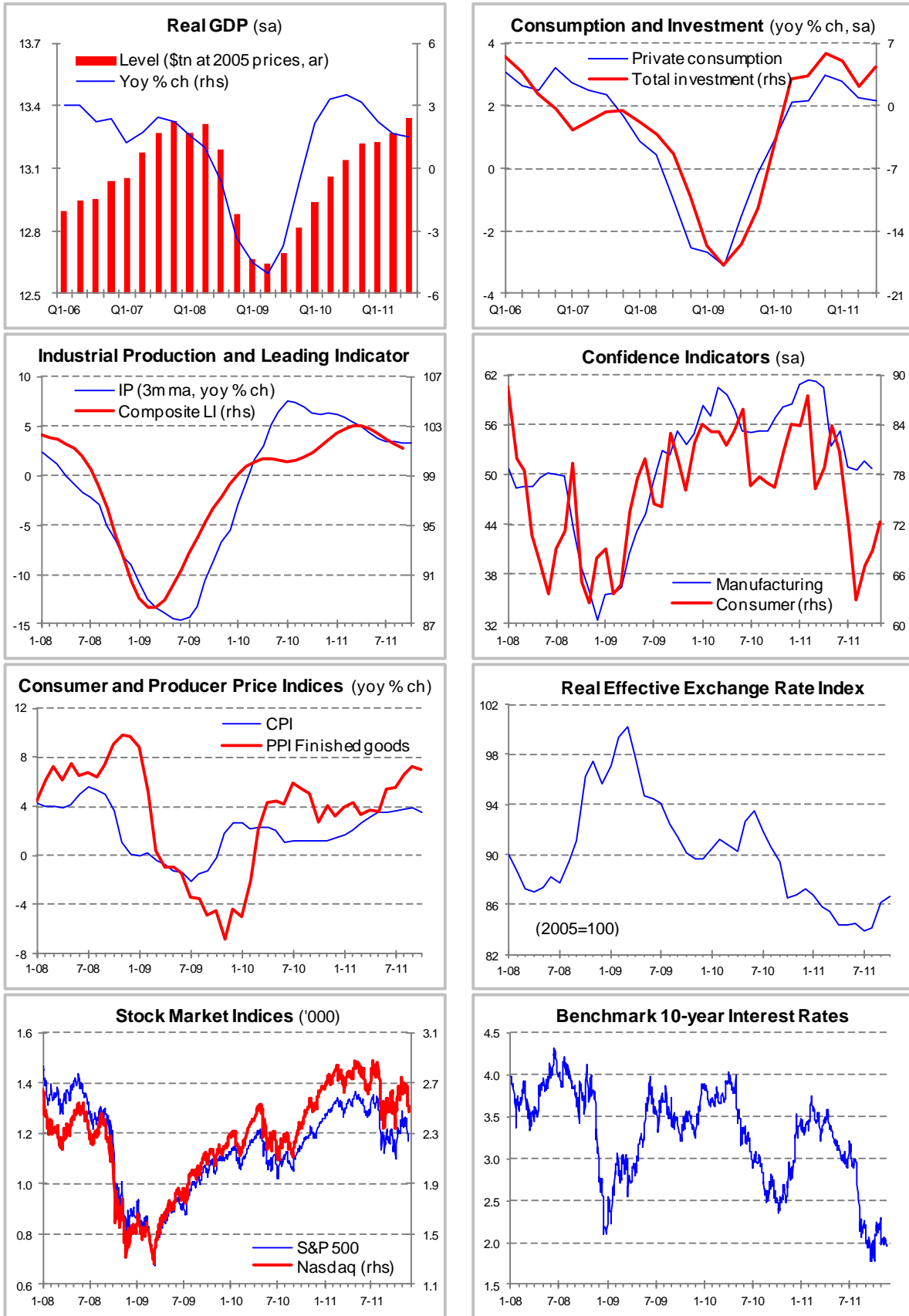
* Average over year; ** % change on 31/12/10

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

Key message: *The US recovery regained momentum over the summer months but GDP data may have overstated the underlying strength of the economy. The impasse on deficit reduction also is symptomatic of a very weak and unconvincing economic policy management.*

- The US economy gradually accelerated over the first three quarters. National account data put GDP growth for Q3 11 at 0.5% qoq (up from the previous +0.1 and +0.3% in Q1 and Q2, respectively). Private consumption accelerated further (to 0.6% qoq) driven by strong spending in durable goods as did investment (up by 2.9% qoq). The de-stocking process continued subtracting 0.4% to overall GDP qoq growth while net export added 0.1%.
- The strength in consumption was surprising as it came at a time when real disposable income contracted by 0.5% qoq (following a drop of 0.1% in Q2). This combined with a sharp reduction in households' savings rate (down to just 3.8% in Q3 from the previous quarter 4.8%). Although the labour market has shown signs of improvement, job creation remains weak and the unemployment rate is still too high at 9%. Therefore, the sustainability of Q3 growth pattern appears questionable also given that still depressed housing equity and stock market jitters contribute to squeeze households' balances. The latest figures on consumer spending (referred to October) actually confirm that consumption is decelerating.
- The corporate sector is enjoying stellar financial performances with profits close to US\$2tn in Q3. Whether businesses are willing to invest and hire is, however, dependent on the reduction in the degree of financial and economic uncertainty, which, in fact, is currently quite high.
- Recent production and orders data show that the economy is holding up though at a soft rate. Latest manufacturing surveys, however, were increasingly disappointing with the ISM dangerously close to falling below the 50 threshold (signalling contraction)
- The congressional "super committee" has recently announced its inability to reach an agreement to reduce the federal deficit. This body had been created following August deal to raise the federal debt ceiling and charged with coming up with \$1.2tn in deficit reduction over the next decade. Political parties are in particular unable to agree on taxation issues. Nevertheless, a significant deficit reduction is already in the pipeline given the expiry at end-2012 of the Bush-era tax cuts and the kick-in of automatic spending cuts included in the debt ceiling agreement.

UNITED STATES



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

CANADA

Real Indicators*	2008	2009	2010	Latest
GDP	0.7	-2.8	3.2	2.2 Q2
Industrial Production	-4.5	-11.5	6.1	0.6 Aug**
Construction Investment	2.9	-10.9	9.2	5.7 Q2
Consumer Prices***	2.4	0.3	1.8	2.9 Oct
Producer Prices - Manufacturing***	4.3	-3.5	1.0	5.3 Sep
Hourly Earnings - Manufacturing***	1.7	-5.0	4.9	-1.9 Sep
Standardised Unemployment Rate (%)	6.1	8.3	8.0	7.3 Oct
Current Account Balance (Can\$bn)	5.3	-45.2	-50.9	-53.6 Q2°
as a percentage of GDP	0.3	-3.0	-3.1	-3.2
Real Effective Exchange Rate Index [§]	106.2	100.9	110.4	109.5 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 (o/n)	2.96	0.39	0.60	1.00 Oct
Long term interest rate pa (benchmark 10y)	3.60	3.23	3.24	2.30 Oct
Stock Exchange (TSE) Index (% ch)*	-8.2	-18.7	18.7	-13.7 23/11/11**

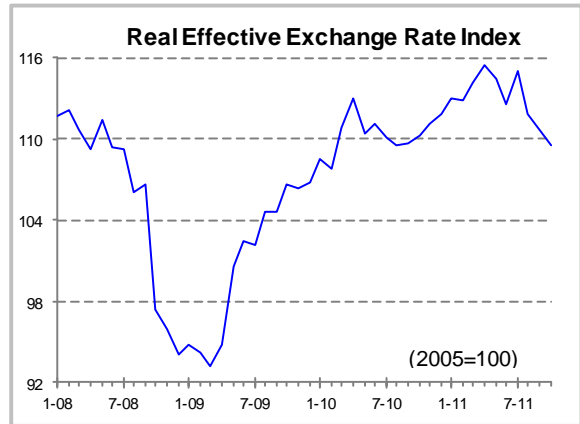
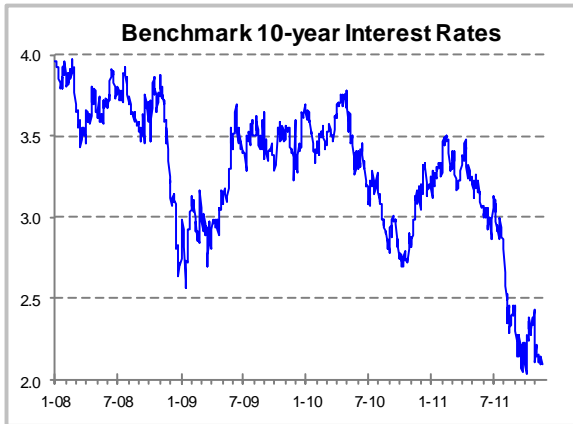
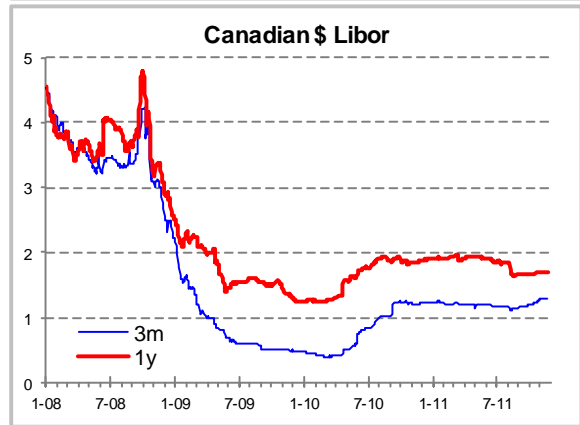
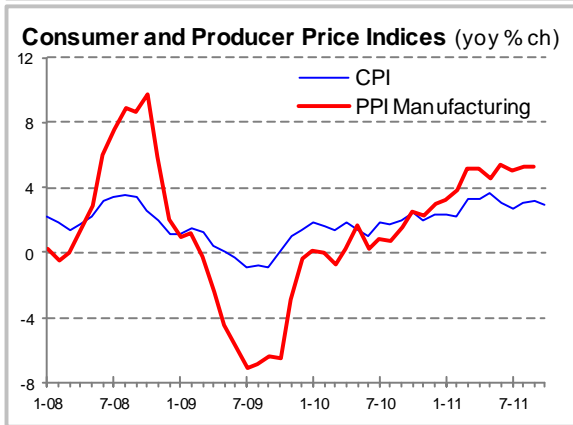
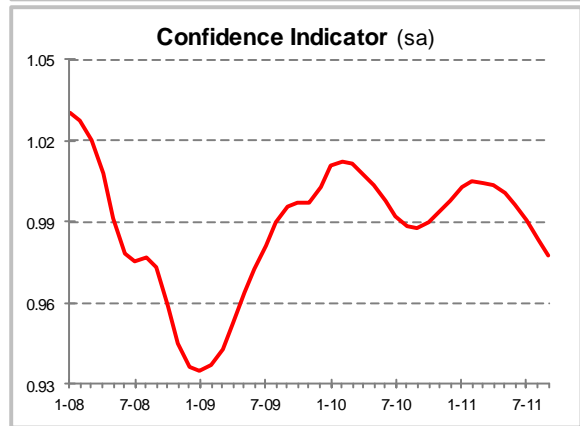
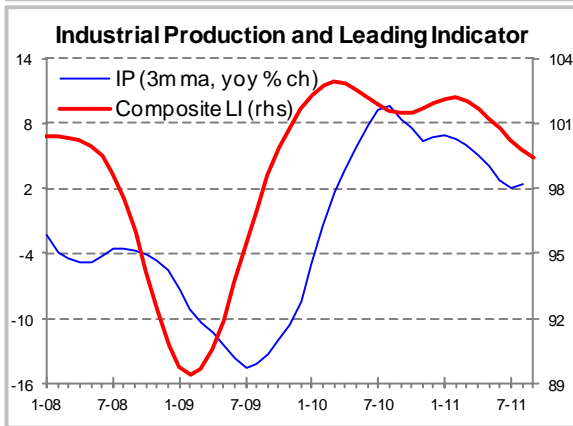
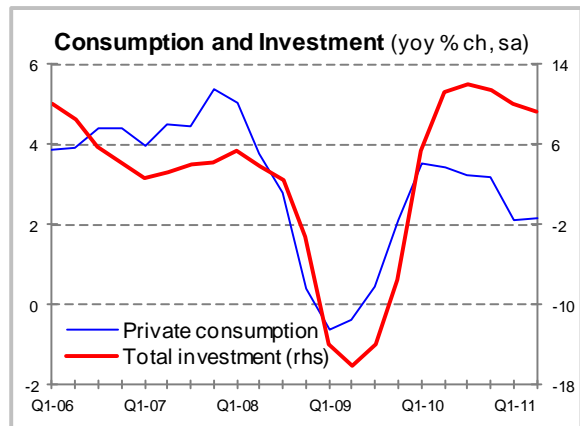
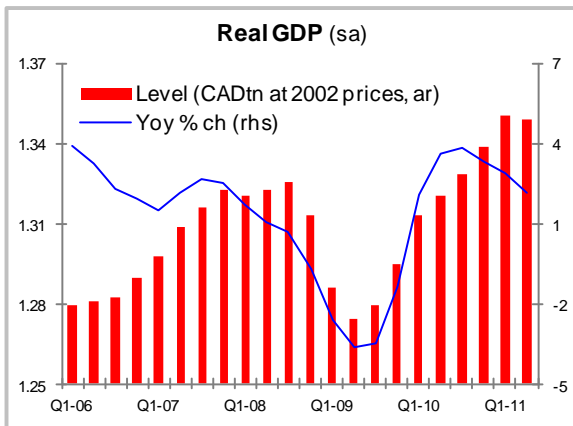
* Average over year; ** % change on 31/12/10

Sources: OECD, Statistics Canada, BIS, daily press

Key message: *The Canadian economy is relatively better positioned than most other advanced economies and is not in need to undergo harsh fiscal austerity. Nevertheless, its exposure to the US and to global dynamics makes it vulnerable to the ongoing downturn in world trade, not to mention commodity price trends.*

- GDP growth came to a halt in Q2 11 and dropped by 0.1% qoq as a fall in export more than offset a modest rebound in consumption. Both private and public consumption accelerated to +0.4% qoq after having stalled in Q1 while investment remained relatively robust albeit softer than in the previous quarter.
- Net export shaved a hefty 1.8% off overall qoq GDP growth in Q2 11. Export plummeted unexpectedly by 2.1% qoq while import continued to expand at rates around 2.4% qoq. As a matter of fact, export oriented industries suffered supply-chain disruptions related to the March Japan tsunami and bush fires in Alberta as well as weakening demand from South of the border together with a strong currency.
- Data throughout the summer months showed that the economy rebounded after the temporary setback in Q2 with export and industrial production performing robustly. However, confidence indicators have started declining particularly following the debt-ceiling impasse in the US. In addition, the labour market is showing again signs of weakness: in October the unemployment rate edged up to 7.3% from the previous 7.1%, but the rise would have been greater without a drop in the size of the labour force, as discouraged job-seekers gave up their search for jobs, and virtually no new job has been created over the period August-October.
- The Canadian dollar has somewhat depreciated vis-à-vis the US\$ in recent months after hitting a record high in late July (when the exchange rate hovered around 0.94-0.95 vs. the US\$) though remaining still quite strong.
- Households leverage is high and increasing – the debt to disposable income ratio is well above 140%, among the highest in the OECD. This coupled with robust house prices rises despite tighter mortgage regulations raises concerns about an inflating housing bubble.

CANADA



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	-0.2	-2.6	1.4	1.6 Q3
Industrial Production	-2.4	-12.6	5.4	-1.7 Sep**
Construction Investment	-2.0	-5.8	-4.9	0.3 Q3
Consumer Prices - Harmonised Index***	3.2	0.1	1.7	2.5 Oct
Producer Prices - Manufactured Goods***	5.3	-7.3	3.3	6.0 Sep
Hourly Earnings - Manufacturing (<i>ouvriers</i>)***	3.1	2.1	1.8	2.6 Q3
Standardised Unemployment Rate (%)	7.8	9.5	9.8	9.9 Sep
Current Account Balance (€bn)	-33.7	-28.4	-33.7	-46.4 Q3°
as a percentage of GDP	-1.7	-1.5	-1.7	-2.3
Real Effective Exchange Rate Index [§]	100.4	100.4	96.7	95.4 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 (Euro Libor 3m)	4.64	1.22	0.81	1.58 Oct
Long Term Interest Rate pa (benchmark 10y)	4.23	3.65	3.12	2.99 Oct
Stock Exchange (CAC) Index (% ch)*	-24.2	-23.1	12.1	-25.8 23/11/11**

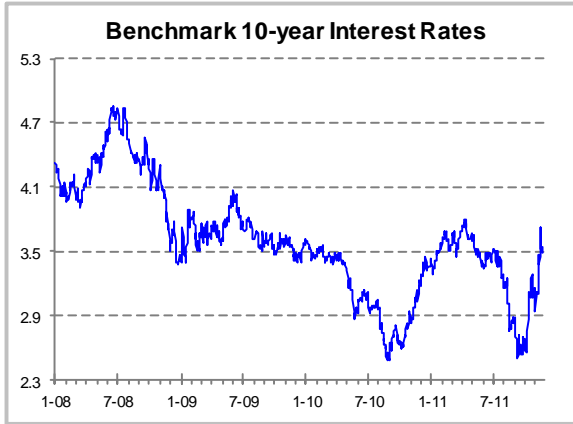
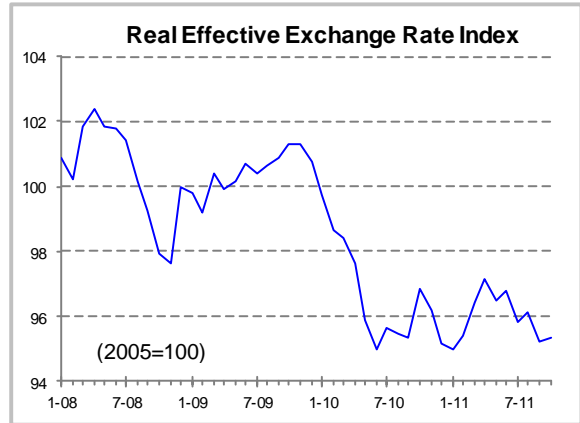
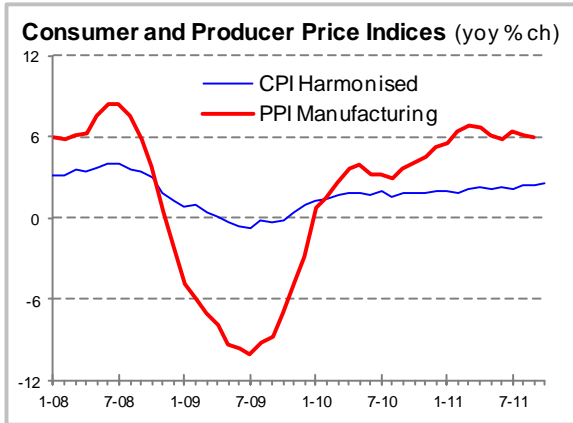
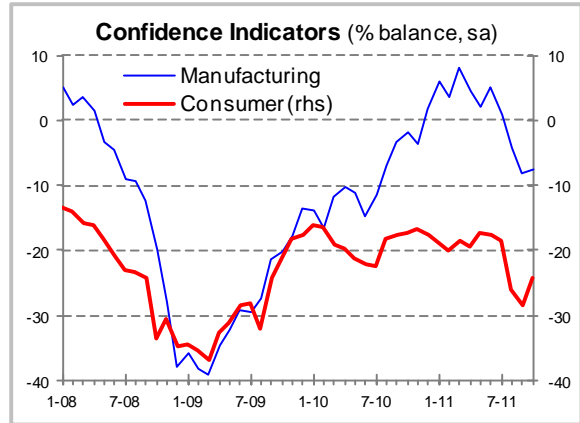
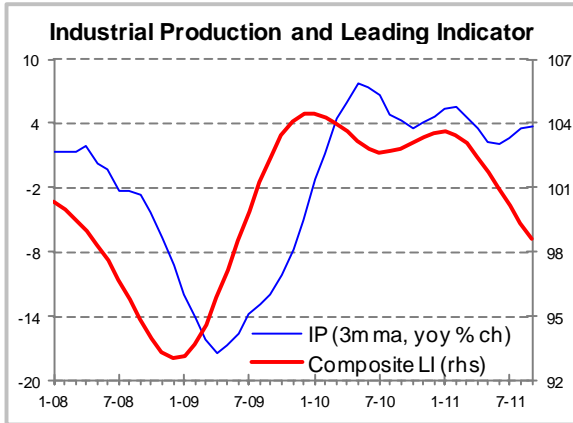
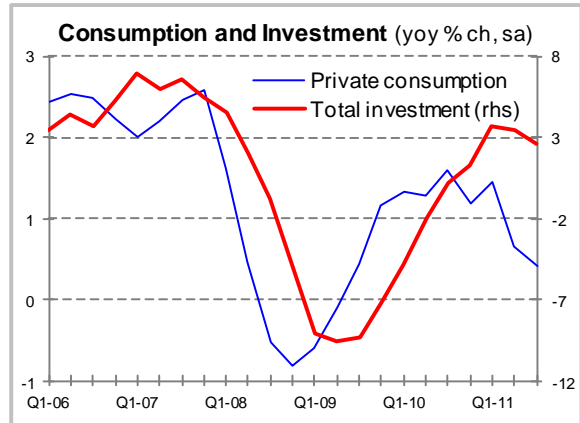
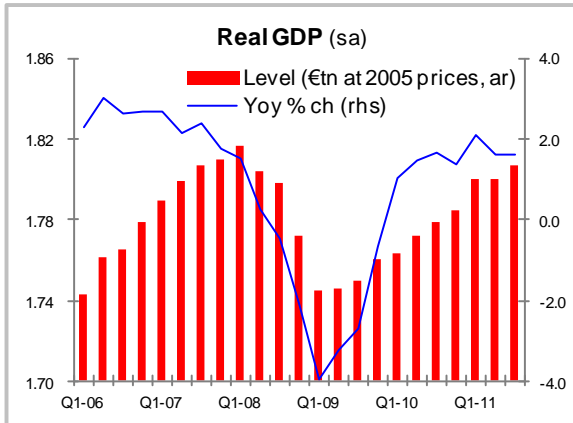
*Average over year; ** % change on 31/12/10

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

Key message: *The French economy is clearly losing momentum and recessionary conditions are set to prevail. The fiscal consolidation effort does not appear to be convincing enough to markets which remain particularly worried about France's banking sector exposure to ailing economies.*

- Preliminary national account data show that the French economy rebounded in Q3 11 (+0.3% qoq) following the slight contraction in the previous quarter. Q2 11 was particularly weak because of the relatively large contraction in private consumption (-0.7% qoq) due to one-off factors such as the end of the car scrappage scheme. The rebound in consumption in Q3 (+0.3% qoq) was thus largely expected.
- In contrast, investment stalled following fairly good growth in H1. As a matter of fact, as confidence has been deteriorating over the current year business investment activity has kept losing momentum. Manufacturing activity appears to be still holding up but it is clearly on a downward trend. In addition, the Purchasing Manager Indexes for both manufacturing and services are well into negative territory, heralding recessionary winds in these sectors.
- Net export contributed positively to overall growth in Q3 11 with export still benefiting from strong German demand. Tighter fiscal policies in trade partners coupled with weaker global economic momentum do not bode well for exports in the coming months.
- Unemployment is at its highest in 10 years, as the economic recovery has so far been unable to create jobs at a robust rate. Moreover, most of the new jobs created are temporary, suggesting there is not enough confidence to hire workers on a permanent basis.
- Amid increasing concerns on France's public finances, earlier in November the government passed its second austerity package in three months in order to meet its budget deficit targets for 2012 and 2013 (respectively 4.5% and 3% of GDP). This extra-effort, mainly skewed on higher taxes, was deemed necessary not only given a faltering economy but also because of the risk of losing the triple A rating on the sovereign debt.
- Related to the euro area debt storm are markets' concerns about the exposure of French banks to Greek and, in particular, Italian sovereign debt. According to Bank of International Settlements data, as of end June 11 French banks' total exposure to Italy topped \$416bn (and \$56bn to Greece) of which \$107bn to the public sector.

FRANCE



Sources: OECD, INSEE, BIS, daily press

BELGIUM

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	0.9	-2.7	2.3	1.8 Q3
Industrial Production	3.7	-9.4	11.9	4.6 Aug**
Construction (Gross Value Added)	0.9	-1.9	0.5	2.8 Q2
Consumer Prices – Harmonised Index***	4.5	0.0	2.3	3.4 Oct
Producer Prices***	7.6	-5.4	6.9	8.1 Sep
Hourly Earnings-Industry***	2.9	2.6	1.1	1.3 Q2
Standardised Unemployment Rate (%)	7.0	7.9	8.3	6.7 Sep
Current Account Balance (bn €)	-5.7	-6.8	4.1	3.2 Q2°
as a percentage of GDP	-1.6	-2.0	1.2	1.2
Real Effective Exchange Rate Index§	103.0	103.1	100.1	100.7 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 (Euro Libor 3m)	4.64	1.22	0.81	1.58 Oct
Long Term Interest Rate pa (benchmark 10y)	4.41	3.90	3.46	4.20 Oct
Stock Exchange (BEL20) Index (% ch)*	-29.1	-31.8	19.7	-25.4 23/11/11**

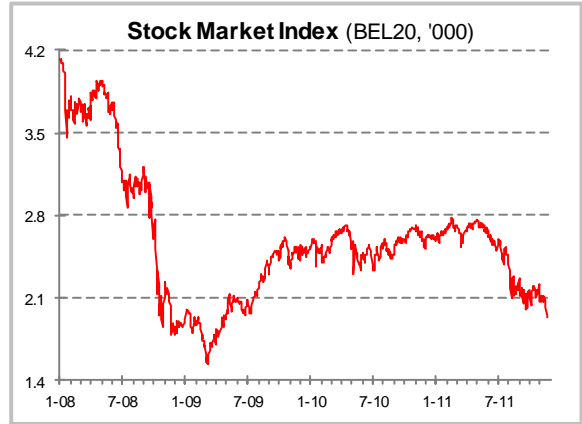
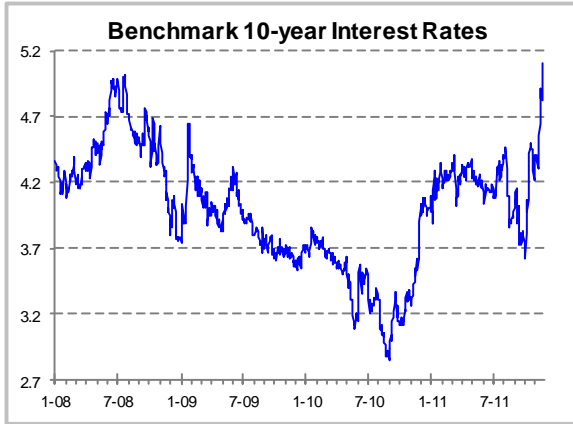
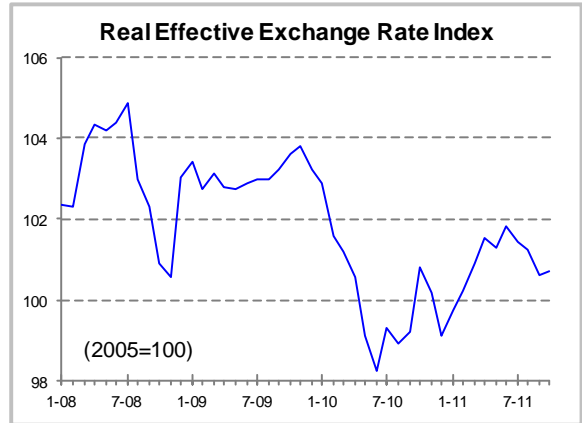
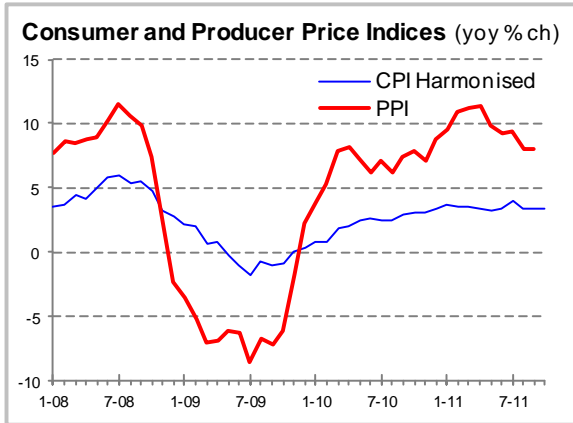
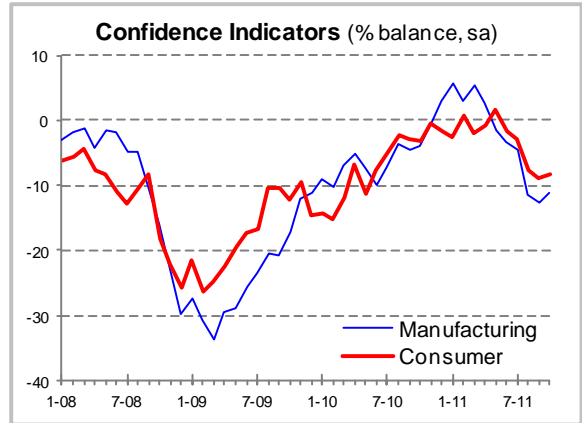
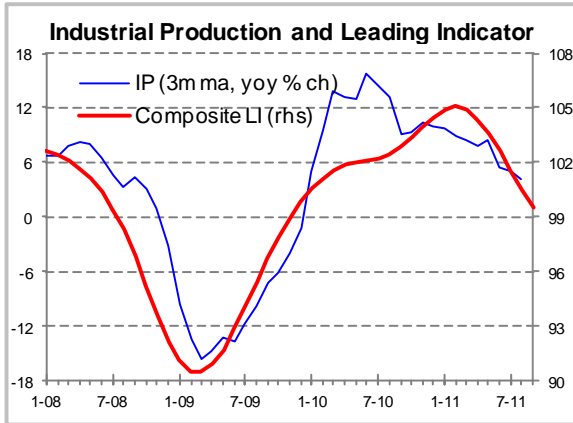
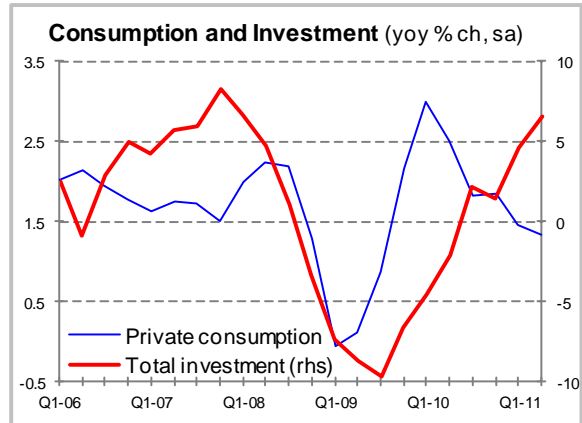
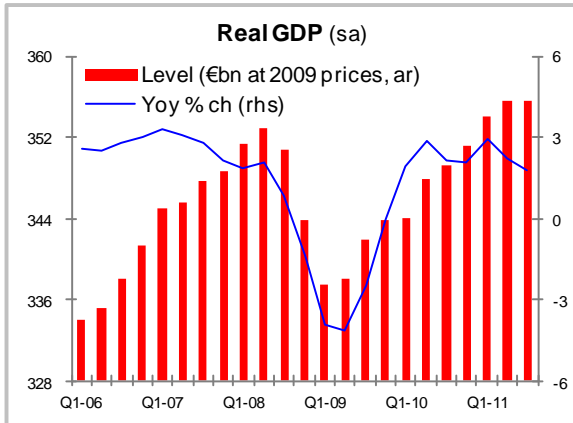
* Average over year; ** % change on 31/12/10

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

Key message: *The Belgian economy has withstood the euro area crisis better than others. Remarkably, this happened during a long political domestic crisis. However, the scenario is turning less benign as the growth outlook is deteriorating and fiscal issues are becoming more stringent.*

- Preliminary national account data for Q3 11 show that the Belgian economy stagnated, following a 0.4% qoq increase in the previous quarter. No breakdown is at present available but the marked slowdown is likely to be the result of lower domestic and external demand, with public spending limited by the government efforts to reduce the deficit and a high level of public debt.
- This followed a relatively healthy expansion in Q2 11 when GDP grew by 0.5% qoq driven by construction, manufacturing and services.
- Growth has remained higher than the euro area average so far, but the latest indicators point to a slower economic momentum with the National Bank of Belgium's leading indicator down to a two-year low in September (and below its long-term average). Also confidence indicators are pointing downwards and industrial production has deteriorated in recent months.
- Inflation remained elevated in October, at 3.6%, after slowing in August and September, which will spill automatically over wages in the coming months. Belgian inflation is particularly exposed to high oil prices given a stronger weighting of petroleum products. Nevertheless, inflation excluding energy prices remained below 2%.
- Eighteen months after general elections in June 2010 negotiations to form a new government are continuing which are trying to agree on the distribution of power between the French and the Flemish communities and which also involve measures related to curbing the budget deficit. The aim is to bring the 2012 deficit down to 2.8% of GDP and to put the budget back in balance in 2015, in line with Belgium's stability plan. This will in any case call for increasing austerity measures in the range of €8 to 11bn for 2012 with obvious negative impact on overall growth.

BELGIUM



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

ITALY

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	-1.2	-5.1	1.5	0.8 Q2
Industrial Production	-3.2	-18.4	5.5	-4.8 Sep**
Construction Investment	-2.8	-8.9	-4.0	-1.5 Q2
Consumer Prices - Harmonised Index***	3.5	0.8	1.6	3.8 Oct
Producer Prices***	5.0	-4.7	3.0	4.5 Sep
Hourly Rates - Industry***	3.4	3.2	2.8	2.4 Sep
Standardised Unemployment Rate (%)	6.8	7.8	8.4	8.3 Sep
Current Account Balance (€bn)	-46.0	-31.7	-50.2	-59.8 Q2°
as a percentage of GDP	-2.9	-2.1	-3.2	-3.8
Real Effective Exchange Rate Index§	101.1	102.0	97.9	98.1 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)	4.64	1.22	0.81	1.58 Oct
Long Term Interest Rate pa (benchmark 10y)	4.68	4.31	4.04	5.97 Oct
Stock Exchange (MIBTEL) Index (% ch)*	-30.6	-29.6	5.0	-28.5 23/11/11**

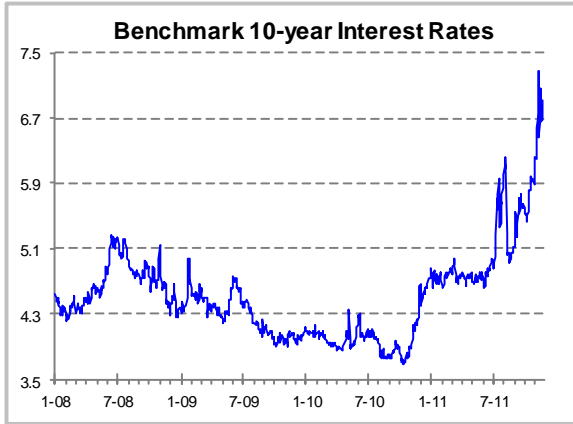
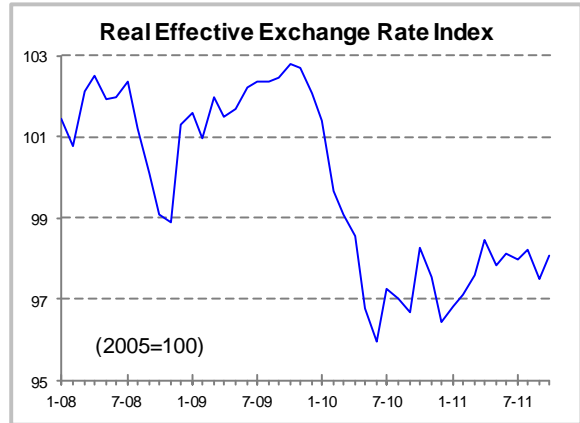
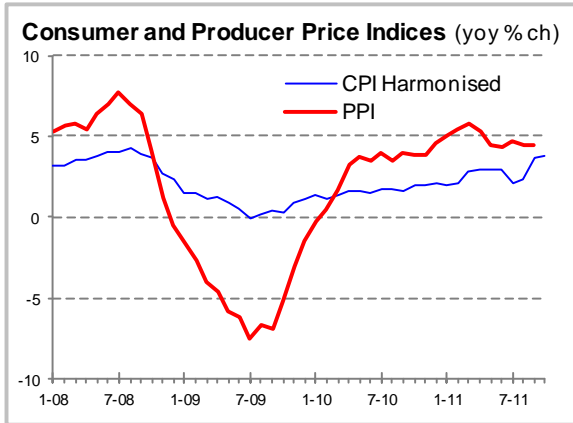
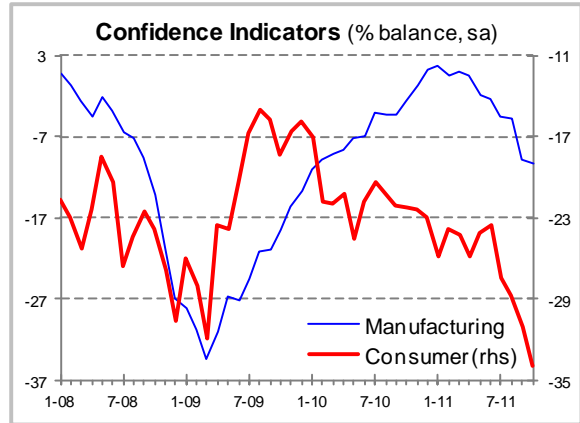
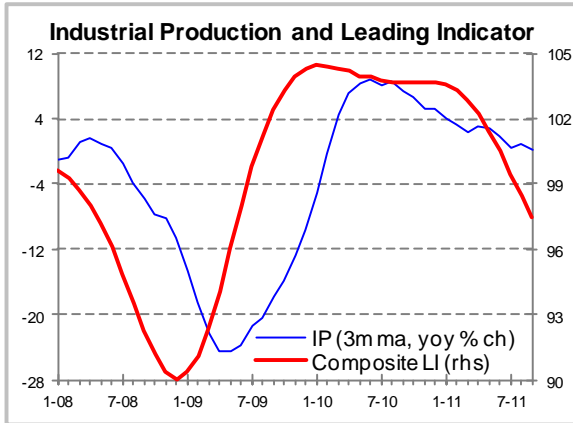
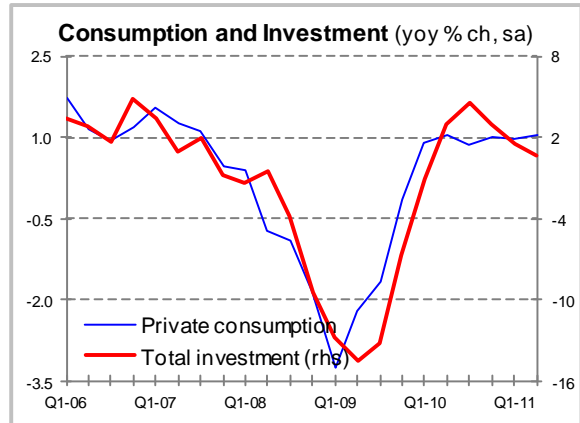
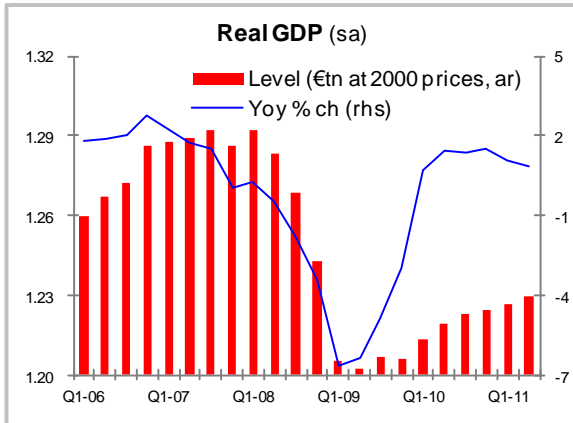
* Average over year; ** % change on 31/12/10

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

Key message: *Italy is facing a difficult juncture very much intertwined with internal political developments. Domestic demand is weakening, as is the external environment, and fiscal sustainability continues to be at risk. Further fiscal tightening is in the pipeline.*

- National account data for Q2 11 were slightly better than expected with GDP expanding by 0.3% qoq primarily driven by net export (which added 0.9% to overall qoq growth). Private consumption was still positive though very weak (0.1% qoq) while investment edged up marginally thanks to healthy spending in equipment (+2.5% qoq) while construction fell back in negative territory. Export remained healthy (+0.9% qoq down from 1.1% in Q1) while import fell (-2.3% qoq) which resulted in a strong positive contribution to overall growth of net external demand (+0.9% qoq).
- As the National Statistics Institute is undergoing a benchmarking exercise on national accounts no provisional data are available for Q3 11 (these will be due only in late December). Higher frequency data, however, point to a weakening momentum. Confidence indicators are pointing downwards also reflecting serious domestic political uncertainties, tighter credit and concerns about labour market developments. Industrial production plummeted in September following a good performance in August, a result which was probably favoured by one-off factors. In addition, industrial orders are falling together with retail sales. September data for foreign orders and sales were negative in the range of 5% mom signalling the incoming weakness of the foreign component as also witnessed by negative monthly export data in October. As a matter of fact, the OECD leading indicator has plummeted in recent months.
- Unemployment is relatively contained given the adverse economic juncture but new statistical surveys reveal that the rate of discouraged workers is three times higher than the euro area average involving 2.8mn workers (about 11% of the workforce) a sign of serious underemployment.
- A new government was recently sworn in under the guidance of Mr. Monti, a EU technocrat, following months of political turmoil. The previous government failed to convince markets on fiscal consolidation measures which resulted in sovereign downgrading and intensified market pressures on sovereign debt (which sent yields temporarily at unsustainable levels). The new government has the difficult task to convince markets and the EU that it will be able to kick-start the economy while achieving a so far not manageable fiscal balance in 2013.

ITALY



Sources: OECD, ISTAT, BIS, daily press

SPAIN

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	0.9	-3.7	-0.1	0.8 Q3
Industrial Production	-7.3	-15.8	0.8	-1.3 Sep**
Construction Investment	-5.7	-15.4	-10.1	-7.3 Q3
Consumer Prices - Harmonised Index***	4.1	-0.2	2.0	3.0 Oct
Producer Prices - Manufacturing***	6.5	-3.4	3.2	6.5 Oct
Hourly Earnings***	4.8	5.0	1.3	2.6 Q2
Standardised Unemployment Rate (%)	11.4	18.0	20.1	22.6 Sep
Current Account Balance (€bn)	-104.7	-54.5	-48.4	-45.5 Q2°
as a percentage of GDP	-9.6	-5.2	-4.6	-4.2
Real Effective Exchange Rate Index [§]	104.8	104.6	101.5	101.8 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)	4.64	1.22	0.81	1.58 Oct
Long Term Interest Rate pa (benchmark 10y)	4.36	3.97	4.25	5.26 Oct
Stock Exchange (MSE) Index (% ch)*	-21.6	-18.3	3.1	-22.6 23/11/11**

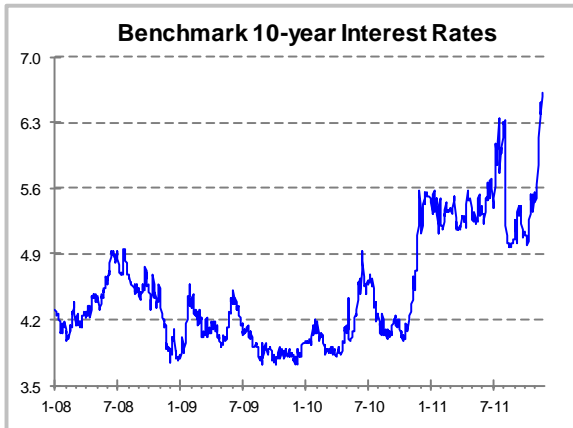
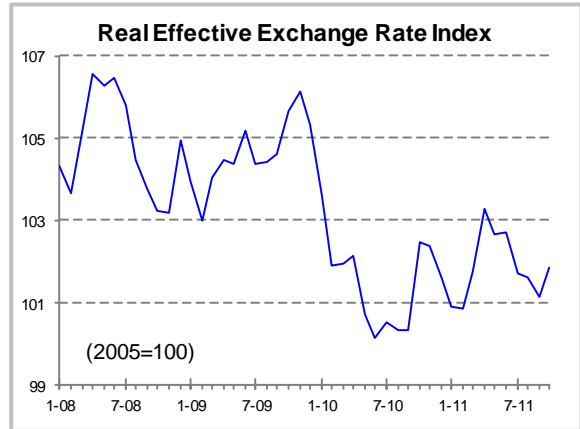
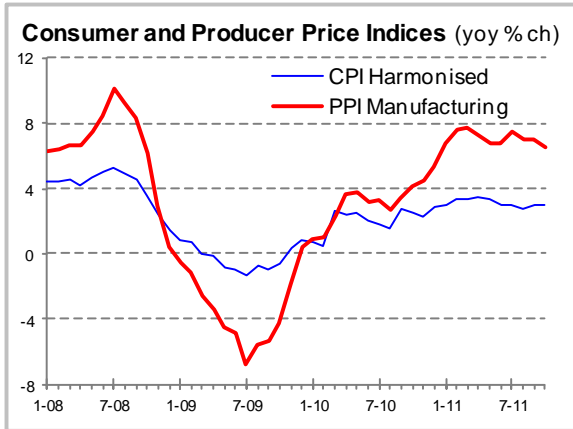
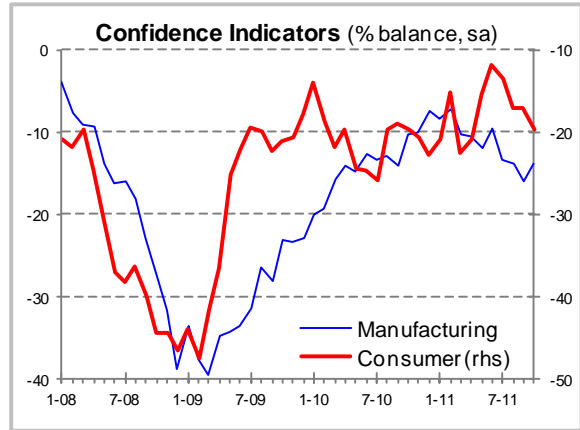
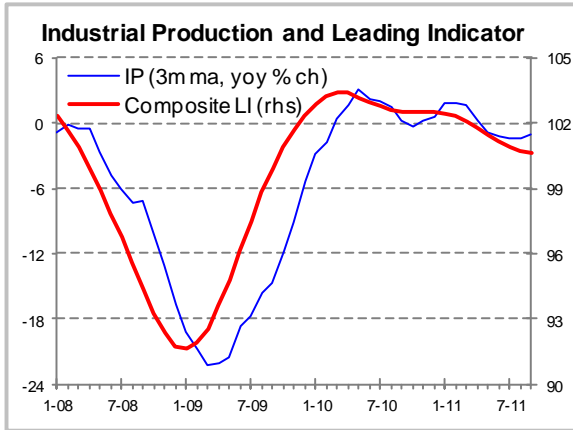
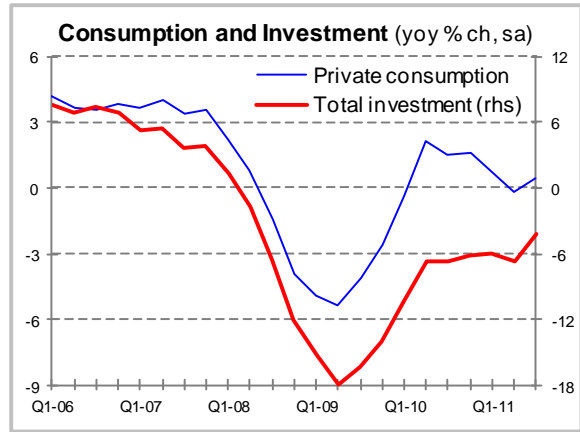
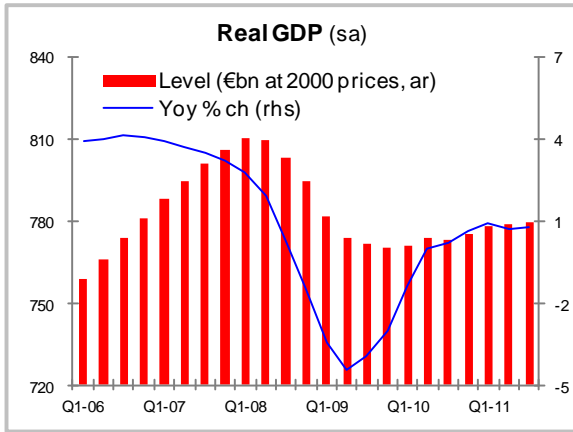
* Average over year; ** % change on 31/12/10

Sources: OECD, INE, BIS, daily press

Key message: *The economy is facing renewed headwinds: not only the fragile recovery early this year is fading away to give way to recessionary forces (declining external demand, no domestic driver at work, fiscal austerity), but also pressures on the fiscal front have resurfaced in the wake of Italy being dragged into the eye of the euro area sovereign debt storm.*

- According to recently released national account data the economy stagnated in Q3 11 and kept on weakening relative to previous quarters. The austerity drive was reflected in falling government consumption while private consumption fell by 0.1% qoq after a small rise in Q2 11 (+0.1% qoq). Overall fixed investment continued to plummet. Continuing concerns about the health of the residential market, related to the large stock of unsold properties and the still weak demand for housing, keep weighing on construction activity which contracted by a further 1.9% qoq. In contrast, spending on equipment turned positive (+2.4% qoq).
- While import remained muted in Q3 11, export rebounded (+3.1% qoq after a 0.2% qoq drop in Q2) yielding a large positive contribution to overall growth (+0.7% qoq) which totally offset the domestic demand drag.
- Labour market developments continue to be disappointing. Employment keeps contracting, with construction and services particularly hit and the unemployment rate well above 20%. Confidence levels are very low in an historical perspective and prospects are deteriorating as the only growth engine so far, export, is set to lose considerable momentum. As a matter of fact, very downbeat recent purchasing managers index (PMI) reports for manufacturing and services have highlighted recession fears.
- The banking sector is undergoing restructuring but remains still in troubles given the collapse of the property market. According to Moody's overall recapitalisation costs will exceed the Bank of Spain estimate of just over €15bn and could near €40-50bn, if not more, in a worst scenario.
- Spain yields are again under pressure and the newly elected government will need to reinforce the budget consolidation plan, also given that the fiscal targets for 2011 are likely to be missed due to slower than budgeted growth (the deficit to GDP ratio is now expected to be 6.8% in 2011 instead of 6%).

SPAIN



Sources: OECD, INE, BIS, daily press

GREECE

Real Indicators*	2008	2009	2010	Latest
GDP	1.0	-2.3	-4.4	-5.2 Q3***
Industrial Production	-0.3	-9.7	-5.8	11.1 Jul**
Construction Investment	-18.9	-12.3	-12.5	-16.2 Q1
Consumer Prices – Harmonised Index***	4.2	1.3	4.7	2.9 Oct
Producer Prices – Manufacturing***	8.8	-6.8	7.4	9.1 Sep
Standardised Unemployment Rate (%)	7.7	9.5	12.6	16.7 Q2
Current Account Balance (€bn) ***	-34.8	-25.8	-24.0	-23.4 Q2°
as a percentage of GDP	-14.7	-11.0	-10.4	-10.6
Real Effective Exchange Rate Index [§]	104.2	105.7	105.0	106.1 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	4.64	1.22	0.81	1.58 Oct
Long Term Interest Rate pa (benchmark 10y)	4.80	5.17	9.09	18.04 Oct
Stock Exchange (ASE) Index (% ch)*	-30.3	-36.1	-21.6	-52.2 23/11/11**

* Average over year; ** % change on 31/12/10

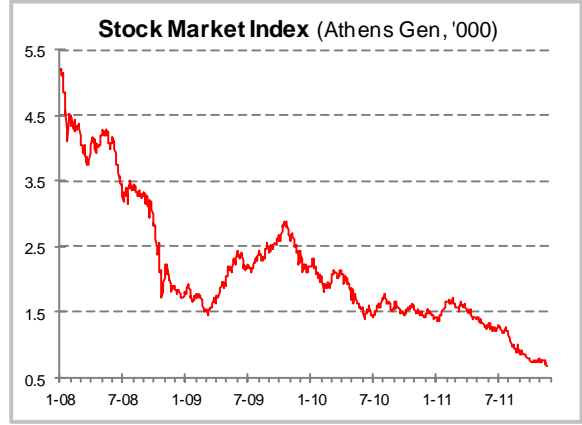
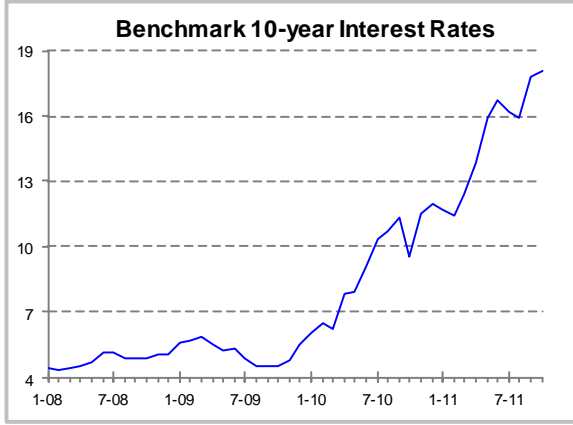
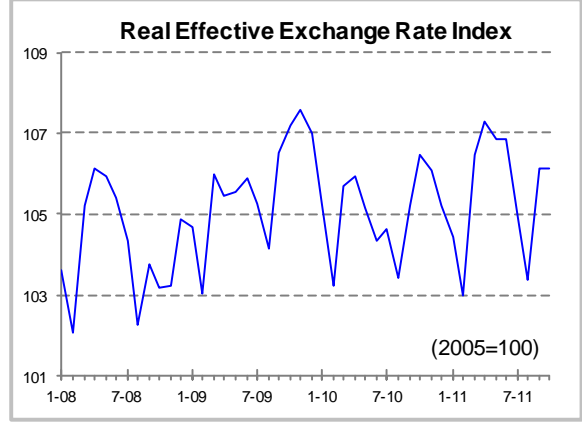
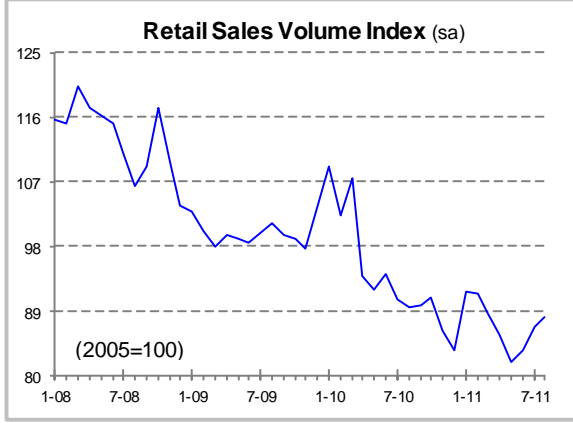
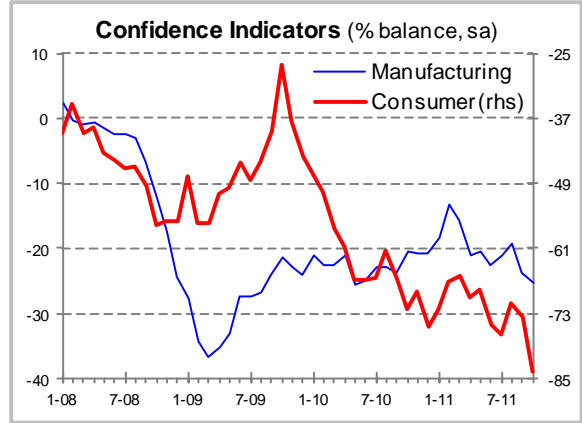
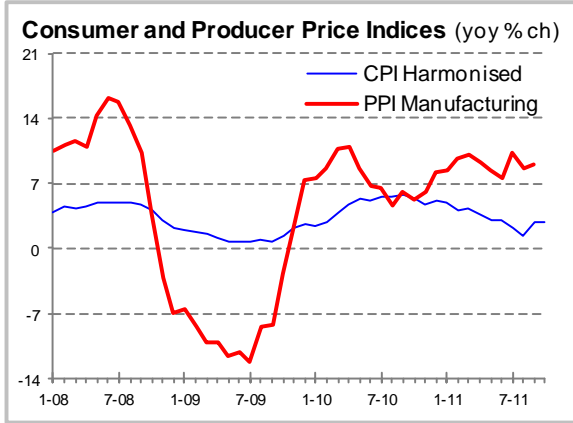
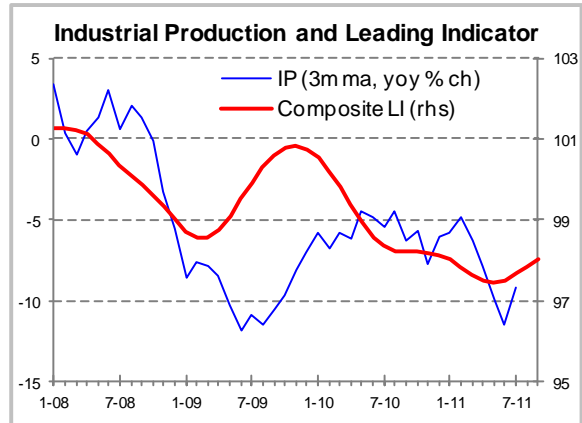
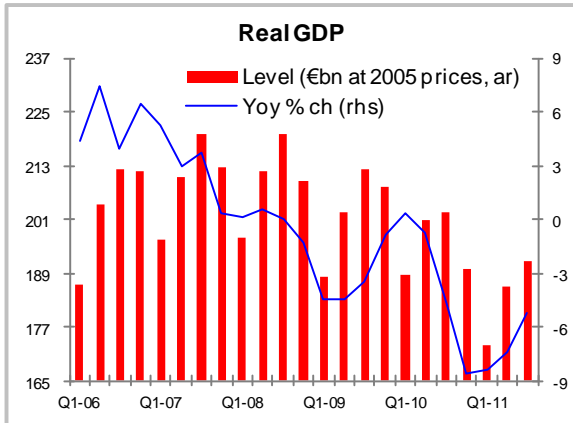
Sources: OECD, National Bank of Greece, BIS, daily press

Key message: *The economy remains in dire straits and the outlook has worsened. Despite the harsh tightening fiscal results have been disappointing, partly wiped out by a still falling economy. Uncertainty remains very high as the country is gripped in the austerity/recession trap.*

- Preliminary national accounts estimates for Q3 11 show that the pace of economic contraction softened somewhat though remaining severe (-5.2% yoy from the previous -7.4%). The economy remains in dire straits with a harsh fiscal tightening yielding continuing recession with no significant fiscal improvement. Disaggregated data for Q3 11 are not yet available but it is likely that the trends observed in previous quarters have continued, i.e. depressed domestic demand as unemployment curtails consumption and uncertainty and tight credit and liquidity hamper investment.
- Inflation has not subsided given further recent indirect tax increases (including a higher VAT rate in food, restaurant, catering services, and non-alcoholic beverages and the hike in consumption tax of heating oil and gas). On the other hand, the harsh employment adjustment (the unemployment rate is over 18% according to local estimates) in both the private and the public sector has been accompanied by sharp wage compression. Nominal wages contracted by almost 4.5% in 2010 and are estimated to contract a further 5% in 2011.
- On the positive side, some rebalancing of the economy is ongoing as the above labour market developments (coupled with structural reforms) are helping reduce the competitiveness gap. This is particularly true in the tourist sector which recovered in 2011 although more competitive pricing resulted in lower tourist revenues (by about 15% according to National Bank of Greece estimates).
- While the labour market has adjusted faster than expected, reflecting also significant structural reforms, the external imbalance correction process is far slower. The decline in the current account deficit is being hampered by adverse terms of trade effects (high oil and other commodity prices, plummeting shipping rates) combined with the above tourist services repricing (all these factors are estimated to have shaved off the current account adjustment about 2.5% of GDP).
- Following political turmoil related to a new fiscal consolidation package necessary to obtain the 6th tranche (€8bn) of the EU/IMF/BCE troika loan, a new premier, Mr. Papademos, has been appointed. His task includes to secure both the 6th tranche of the loan and the successful passage of the latest bailout deal (worth €130bn) agreed last October ahead of next year elections.

n. 3 - November, 25th 2011

GREECE



Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	6.2	-5.5	0.2	1.3 Q3
Gross Fixed Capital Investment (wda)	21.9	-17.6	-16.5	-3.1 Q3
Industrial Production – Manufacturing	0.7	-22.4	3.9	2.8 Sep
Consumer Prices – Harmonised Index	12.0	2.5	3.0	3.0 Oct
Producer Prices – Manufacturing	13.1	-9.1	8.4	9.1 Sep
Unemployment Rate (%)	5.6	6.8	10.2	11.8 Sep
Current Account Balance (US\$bn)	-12.6	-4.3	-0.8	0.9 Q3°
as a percentage of GDP	-23.1	-8.9	-1.3	1.6
Real Effective Exchange Rate Index [§]	120.4	125.2	121.2	123.5 Oct

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

Financial Indicators

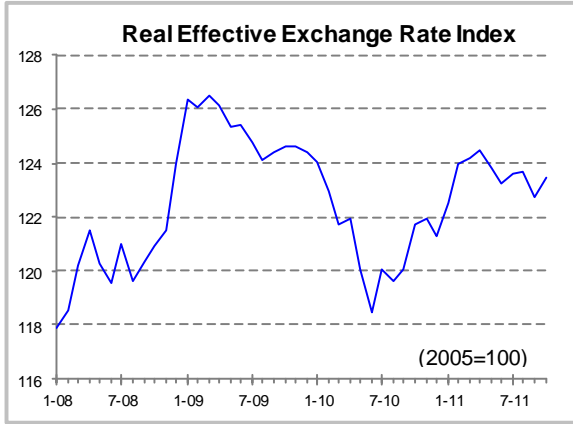
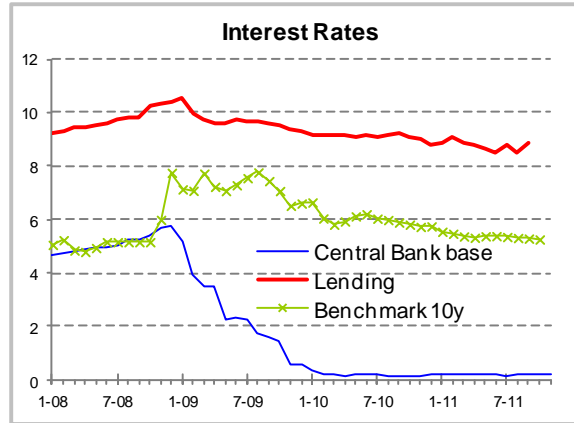
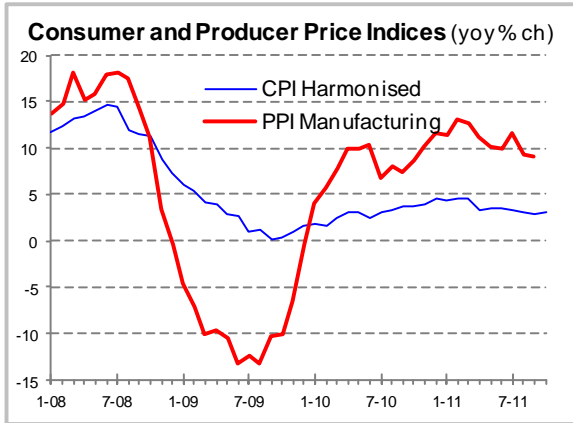
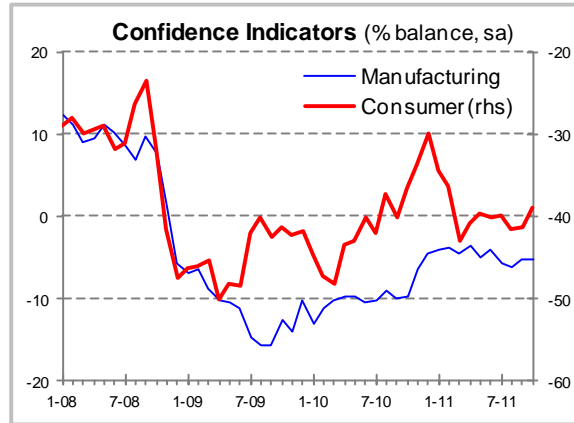
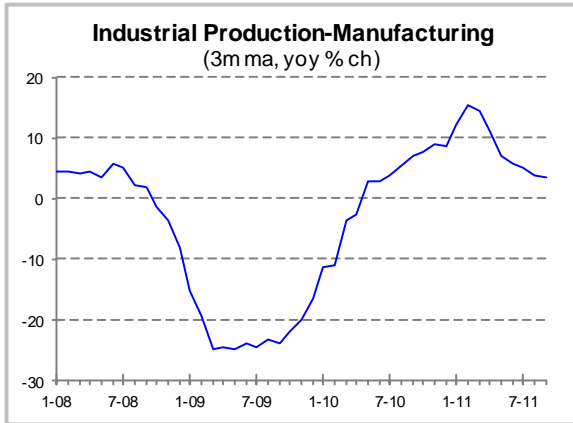
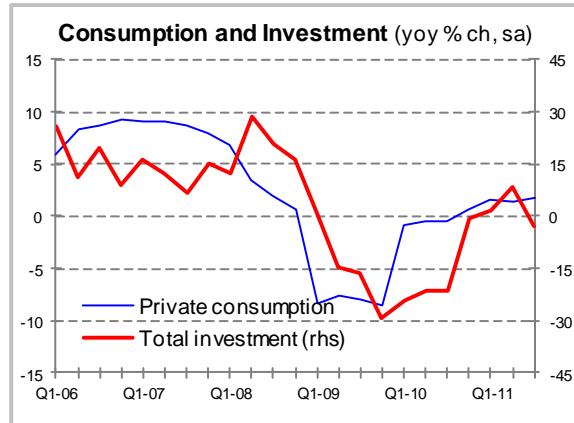
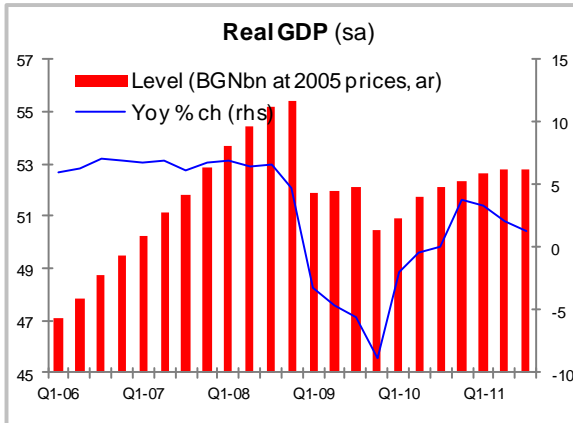
Short Term Interest Rate pa (sofibor o/n)	5.3	2.2	0.4	0.5 Sep
Short Term Interest Rate pa (sofibor 3m)	7.1	5.7	4.1	3.7 Sep
Long Term Interest Rate pa (benchmark 10y)	5.4	7.2	6.0	5.3 Oct

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

Key message: After stabilising in 2010 the Bulgarian economy managed to recover somewhat this year. However, both business and households demand remains extremely weak with the former still heavily burdened by debt. Given adverse external developments, prospects are deteriorating rapidly.

- According to flash estimates the Bulgarian economy stalled in Q3 11, easing its pace further relative to H1 11. While consumption, both private and public, held up relatively well, investment plunged (by a stunning 13.7% qoq). This in turn resulted in a fall in import while export decelerated sharply on year on year comparison despite a small quarterly rebound.
- On a sectoral basis, Q3 11 growth was dragged down by industry which fell by 0.6% qoq undermined by the fall of export orders from the euro area. As a matter of fact, manufacturing activity has decelerated dramatically since April and confidence and prospects are grim. Given perspective lower external demand, investment is unlikely to pick up, also due to the continuing deleveraging process in the corporate sector; in turn, domestic demand is set to weaken also because high unemployment makes households reluctant to increase consumption.
- Inflation has decelerated, as the spike in food and energy prices earlier this year proved temporary and the combination of sluggish demand and high unemployment keeps price pressures low.
- On the positive side, the absorption of EU funds continues to improve which should be felt on investment in infrastructure. In addition, there is still a wide margin of funds to be disbursed, which represents a much needed support at a time of economic weakening, when monetary policy is not an option due to the currency board and fiscal expansion is unlikely.
- Sound fiscal policy management before the crisis has helped Bulgaria withstand it without incurring in serious fiscal troubles. The government appears on track to cut its budget deficit below the 3% threshold set by the Stability and Growth pact already this year so that there should not be need for further tightening next year.
- Positive developments on the current account side continued in Q2 11. A deteriorating trade balance was more than offset by stronger services and current transfers while foreign direct investment continued to disappoint. There is evidence that the banking sector dependence on external funding has now been brought back to more sustainable levels.

BULGARIA



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

EGYPT

Real Indicators*	2008	2009	2010	Latest
GDP	6.0	4.6	5.7	0.3 Q2
Construction Production (GVA)	11.8	14.2	12.9	0.3 Q2
Consumer Prices	18.3	11.8	11.3	7.1 Oct
Producer Prices	21.3	-5.6	12.7	11.7 Sep
Unemployment Rate (%)	8.7	9.4	9.0	11.8 Q2
Current Account Balance (US\$bn)	-1.3	-3.2	-4.4	-2.8 Q2°
as a percentage of GDP	-0.5	-1.6	-1.9	-1.2
Real Effective Exchange Rate Index	78.0	87.3	96.0	97.8 Oct

* 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 Q2 included;

Financial Indicators

Short Term Interest Rate pa (overnight)	10.3	9.5	8.3	9.1 Sep
Short Term Interest Rate pa (91 days T-Bill)	9.3	10.3	9.6	12.4 Sep
Stock Exchange (HERMES) Index (% ch)*	8.7	-32.8	18.2	-32.3 23/11/11**

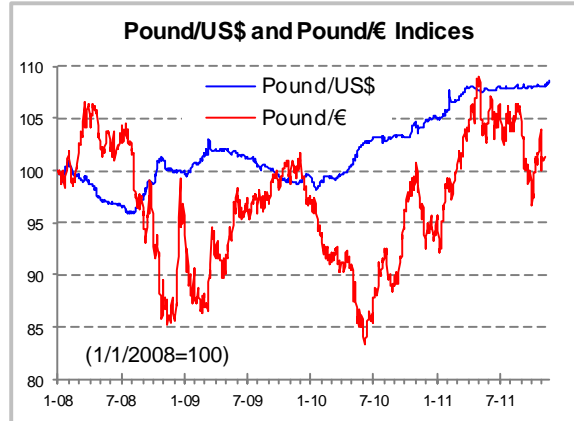
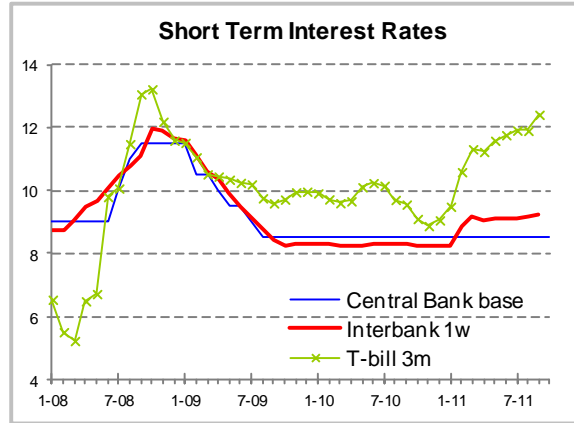
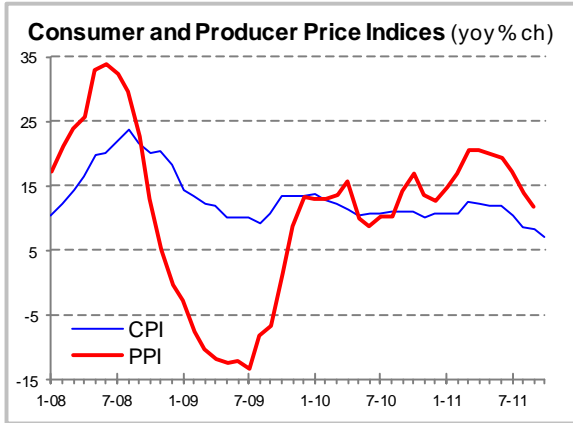
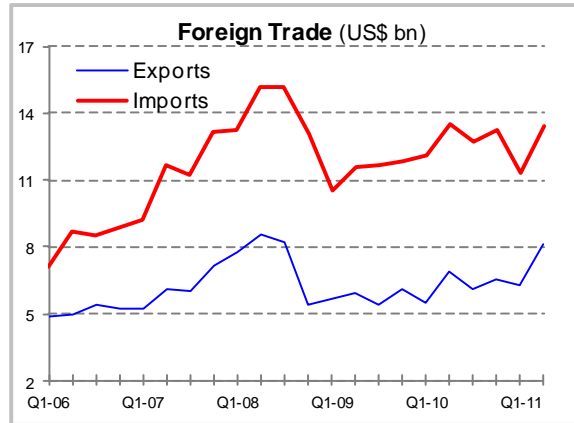
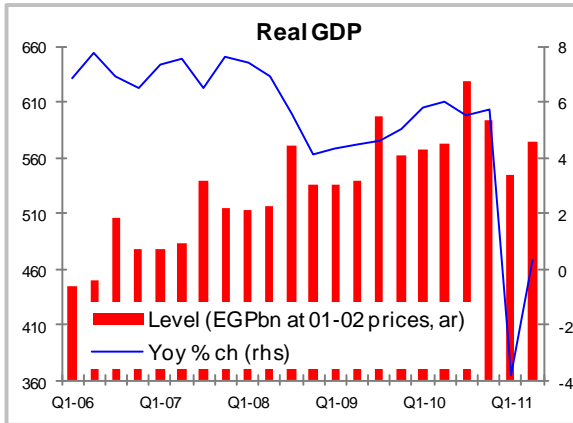
* Average over year; ** % change on 31/12/10

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

Key message: Egypt remains trapped in a difficult situation with its main currency earners in deep crisis (tourism) or decelerating in the months to come due to the incoming global slowdown (Suez Canal revenues) and with domestic growth engines engulfed by a still unresolved political scene.

- Despite the ongoing political impasse the economy grew by 0.3% yoy in Q2 11 driven by strong inventory accumulation. Private consumption held up relatively well albeit slowing down to 3.5% yoy, dragged down by lower tourism income and higher unemployment. Remittances supported consumption as they rose by 6% yoy, the likely effect of expatriates concerns on relatives living in Egypt.
- Investment fell sharply (-9.2% yoy) reflecting both the drying up of foreign capital inflows and the uncertain economic environment. Notably, were it not for a sizeable public injection investment (up by 28% yoy in nominal terms) and still positive growth in the private hydrocarbon sector investment activity would have fallen more sharply.
- On a sectoral basis, the decline in manufacturing eased to a still large 3.8% while tourism kept plunging (-19.5% yoy) but almost all other sectors recorded positive figures (including those, such as construction, transport, wholesale and retail sales, which were in negative territory in Q1 11). Suez Canal fees continued to grow at double digit rates (+12.7% yoy) accelerating further from the previous quarter.
- Foreign direct investment has dried up in Q2 11 and dollar revenues from tourism have fallen by 35% in both Q1 and Q2 11. While the trade deficit has somewhat shrunk, the overall external balance has markedly deteriorated. This, coupled with a mounting fiscal deficit (projected to hit 10% of GDP in fiscal year 2011/12) is pushing the government to reconsider the hypothesis of financial help from the IMF.
- Inflation has decelerated in recent months although food prices remain high while the currency has remained steady as the Central Banks defends its peg.
- Business sentiment remains shaky, hard hit by labour strikes, continuing outbursts of violence, and political uncertainty, in addition to a number of privatisation contracts being annulled. Prospects remain troubled given a very long electoral phase which means the transition could last well until early 2013.

EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2008	2009	2010	Latest
GDP**	5.6	4.8	3.7	4.2 Q2
Construction Production (GVA)**	9.4	3.4	2.0	3.0 Q2
Industrial Production	2.2	0.3	2.0	2.1 Q2
Consumer Prices	3.9	1.0	1.0	-0.4 Oct
Producer Prices – Manufacturing	18.0	-15.1	6.4	15.5 Sep
Urban Unemployment Rate (%)	14.7	13.8	13.7	13.5 Q3
Current Account Balance (US\$bn)	-4.5	-5.0	-3.9	-5.7 Q2°
as a percentage of GDP	-5.5	-5.8	-4.6	-6.3
Real Effective Exchange Rate Index [§]	100.1	102.2	98.0	96.0 Aug

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

Financial Indicators

Short Term Interest Rate pa	3.4	3.3	3.3	3.3 Oct
Stock Exchange (MASI) Index (% ch)*	14.4	-20.4	9.2	-14.0 23/11/11**

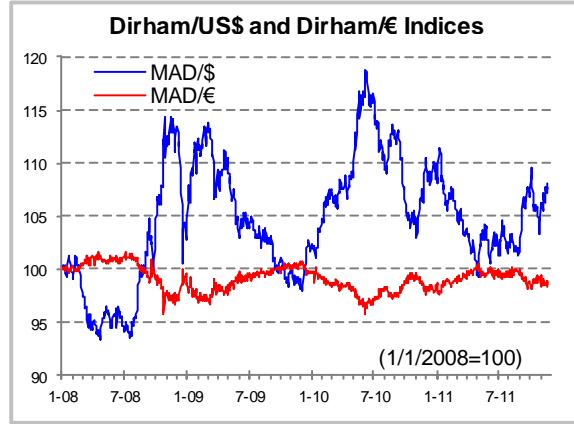
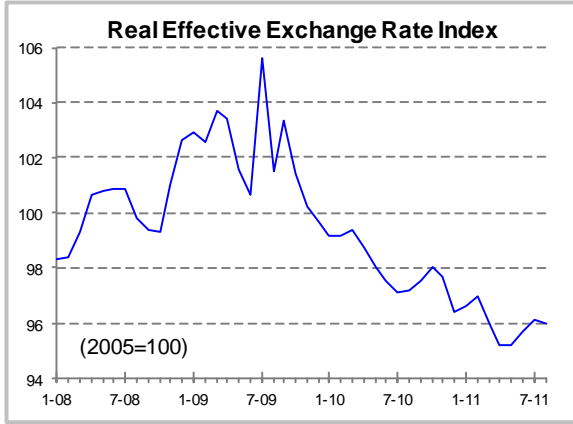
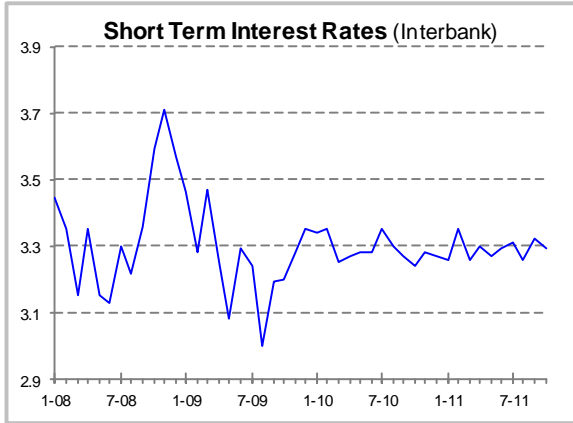
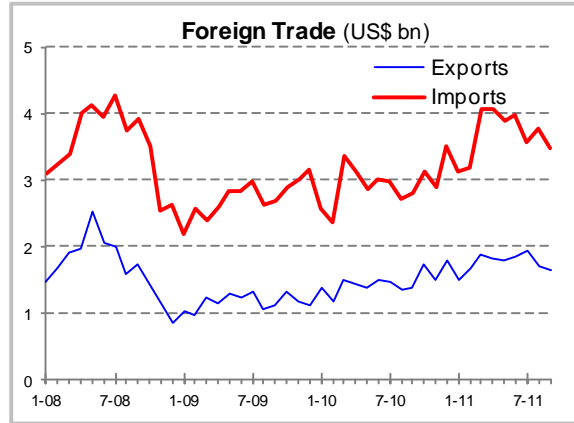
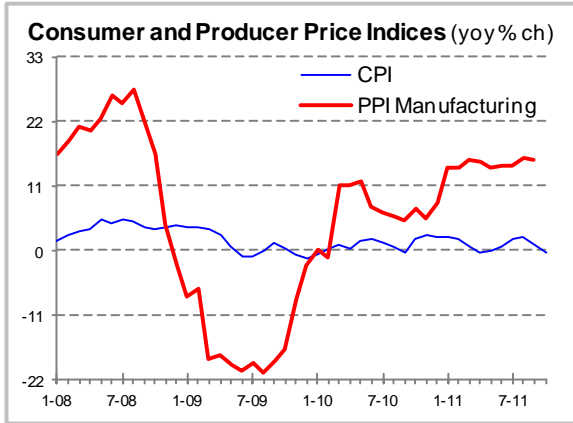
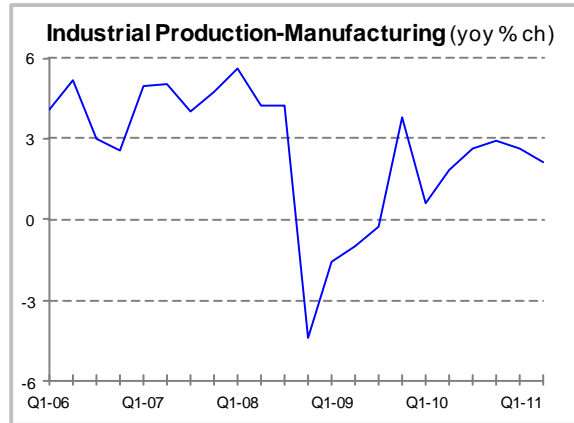
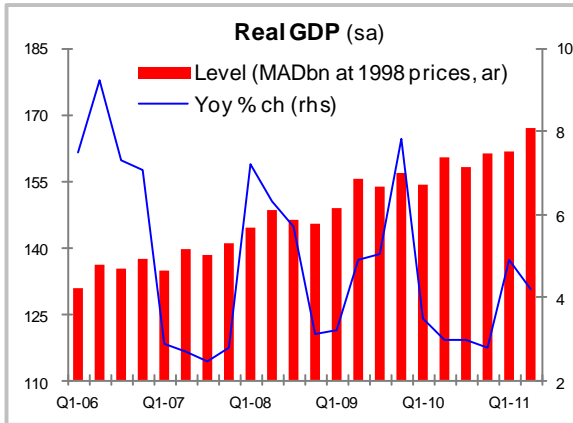
* Average over year; ** % change on 31/12/10

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

Key message: Morocco has fared well in terms of economic growth and political stability also thanks to pre-emptive political reforms. Fiscal and external imbalances are piling up which appear nevertheless still manageable. The worsening global environment is in any case hitting the Moroccan economy.

- The Moroccan economy continued to expand healthily in Q2 11 albeit at a moderately slower pace (+4.2% yoy from the previous 4.9%). Data for H1 11 show that tourism has proved resilient as the country was perceived as relatively stable. However, tourist arrivals have fallen in May and June and also August peak season has likely been hit negatively by the Ramadan falling in that month. Balance of payments data also show a slowdown in tourism revenues growth which however remained strong at around 10% yoy.
- Agriculture output kept recovering (+4.6% yoy) in Q2 11 thanks to a better harvest than a year earlier while overall non agriculture GDP slowed by a full percentage point to 4.1% yoy. Mining production eased significantly after the boom in Q1 11, while manufacturing remained relatively weak. Thanks to the government efforts to implement its social housing programme, construction accelerated to 3% yoy from the previous 2.5%.
- Higher public spending on wages (a wage hike for public employees had been approved last April and agreements with labour unions for higher wages in the private sector have also been reached in recent months), subsidies and investment sustained domestic demand in Q2 11 in all its components. This however, meant stronger import and a negative contribution from net exports.
- While the inflation environment remains moderate, hence the non intervention policy by the Bank Al Maghrib (the Central Bank), developments on the fiscal front and external balances have been less benign. Generous wage and subsidy increases, given with an eye at social stability to prevent the spreading of political turmoil, have jeopardised the country's traditional fiscal discipline. The deficit to GDP ratio is now expected to be close to 5% for the current year.
- The current account deficit, in turn, has risen again on the back of high import energy prices and lower tourism revenues and some pressure on it may persist as the deteriorating scene globally, and particularly in the euro area, will likely impact negatively on export, tourism and remittances.

MOROCCO



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

THAILAND

Real Indicators*	2008	2009	2010	Latest
GDP***	2.5	-2.3	7.8	3.5 Q3
Industrial Production – Manufacturing	4.0	-7.3	14.5	-3.1 Sep**
Construction Investment***	-3.9	0.6	6.6	-5.7 Q3
Consumer Prices***	5.5	-0.8	3.3	4.2 Oct
Producer Prices***	12.4	-3.8	9.4	4.2 Oct
Unemployment Rate (%)***	1.4	1.5	1.0	0.7 Aug
Current Account Balance (US\$bn)	2.2	21.9	14.8	16.2 Q2°
as a percentage of GDP	0.7	8.3	4.6	4.7
Real Effective Exchange Rate Index [§]	114.5	111.4	117.8	114.2 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 (o/n)	3.3	1.2	1.3	3.4 Oct
Stock Exchange Index (Bangkok) (% change)*	-10.2	-15.4	45.7	-5.4 23/11/11**

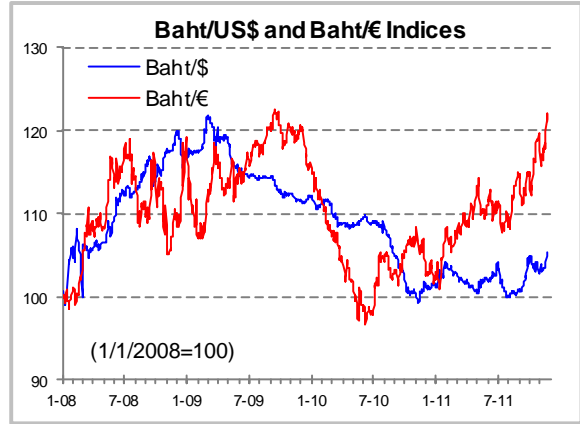
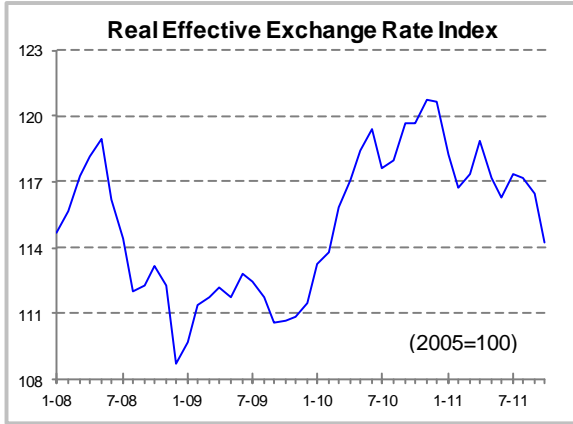
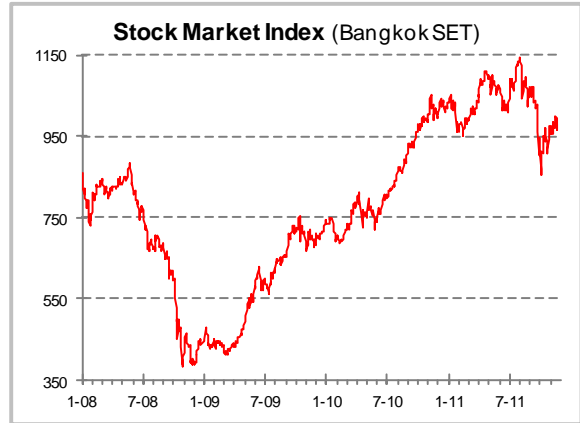
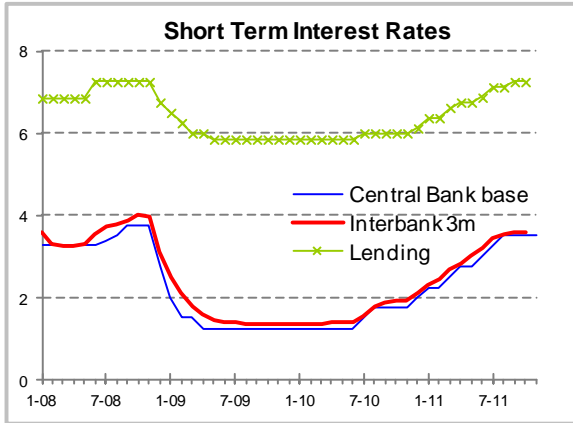
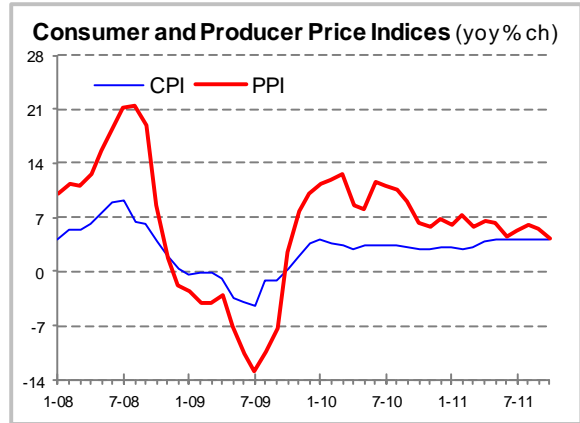
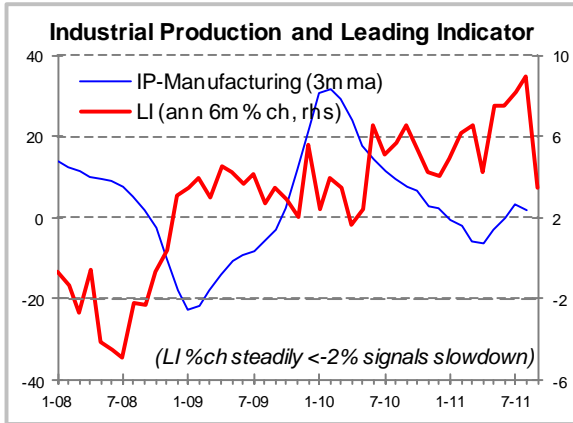
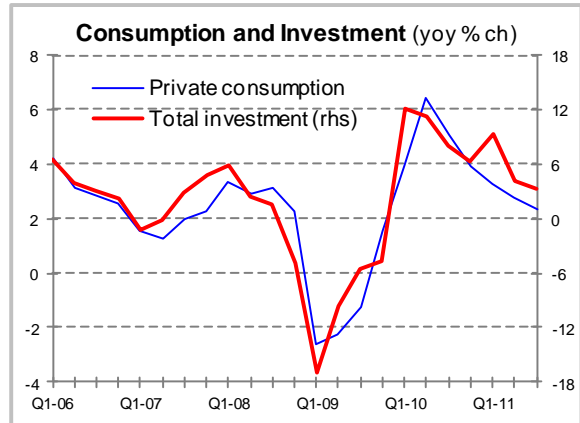
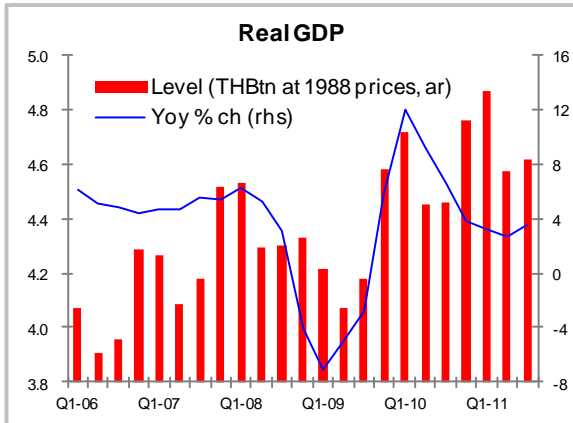
* Average over year; ** % change on 31/12/10

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

Key message: Thailand has been weathering serious adverse events (tsunami induced supply chain disruption and massive floods in H2) this year. Its good growth potential will be limited in future months by the incoming global economic slowdown adversely impacting on exports.

- Just at the time when the supply chain was recovering from last March Japan tsunami, monsoon started in July resulted in the worst floods in five decades. These are seriously disrupting not only manufacturing industry, particularly automotive, (impacting back negatively on Japan's production), but are also severely harming overall economic growth.
- The scale of the disaster is impressive: about 63 out of 77 provinces have experienced some flooding with 25 of them severely affected. Approximately one third of Thailand's area is under water, the death toll so far is over 500 and ca. 700,000 homes have been destroyed with 8mn. people displaced. It is estimated that areas affected account for 30-40% of the country's industrial production. Rice production is also being heavily hit with a projected 30% fall in export.
- Recently released data show that GDP growth was already hit in Q3 by the floods. Although it recovered somewhat following a weak Q2, domestic demand fell on a quarterly basis with growth driven mainly by net export.
- Not surprisingly, inflation accelerated in October as food prices remained high due to the flood. While overall consumer inflation was 4.2% food price inflation surged to almost 10% from the previous month 8.8%.
- Post-flood clean-up and reconstruction while offering a needed support to the economy, will certainly put public purses under stress and limit (or postpone) the fiscal expansion included in the budget for fiscal year 2011/12 approved by the new government in September (and including measures to support private consumption such as tax reductions and subsidies). By end-October a "flood rehabilitation package" worth around US\$10.5bn (just over 3% of GDP) has been announced by the Cabinet while authorities are also contemplating extending tax incentives to foreign investors to prevent them relocating abroad.
- In this context, after a year of tightening the Bank of Thailand held its policy rates on hold in its latest monetary policy decisions. It is quite likely that monetary policy will remain unchanged in the coming months despite the expected flood-induced uptick in inflation.

THAILAND



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

INDIA

Real Indicators*	2008	2009	2010	Latest
GDP**	7.5	7.0	8.9	7.7 Q2
Industrial Production – Manufacturing	5.1	6.8	11.2	2.1 Sep
Construction Production (GVA)**	6.2	5.7	8.2	1.2 Q2
Consumer Prices	8.3	10.9	12.0	10.1 Sep
Wholesale Prices	8.7	2.1	9.5	10.1 Oct
Current Account Balance (US\$bn)**	-31.0	-25.9	-51.7	-46.4 Q2°
as a percentage of GDP	-2.6	-2.2	-3.5	-2.9
Real Effective Exchange Rate Index [§]	99.8	94.6	105.9	101.6 Oct

* 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 Q2 included; § 2005=100

Financial Indicators

Short Term Interest Rate pa (91-day T-bills)	7.7	3.7	5.4	8.6 Oct
Policy Rate (Repo)	8.0	4.9	5.5	8.5 Nov
Stock Exchange Index (Mumbai) (% ch)*	-6.9	-5.7	33.5	-23.4 23/11/11**

* Average over year; ** % change on 31/12/10

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

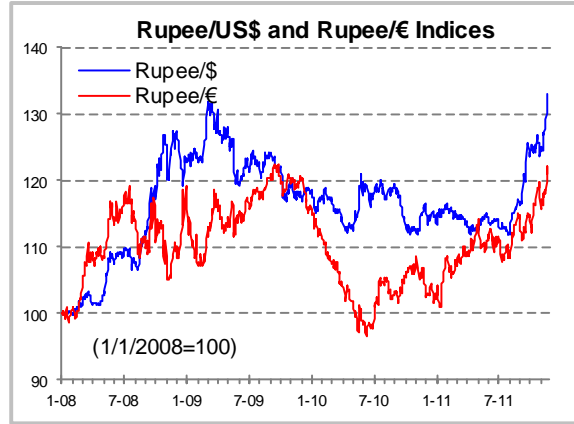
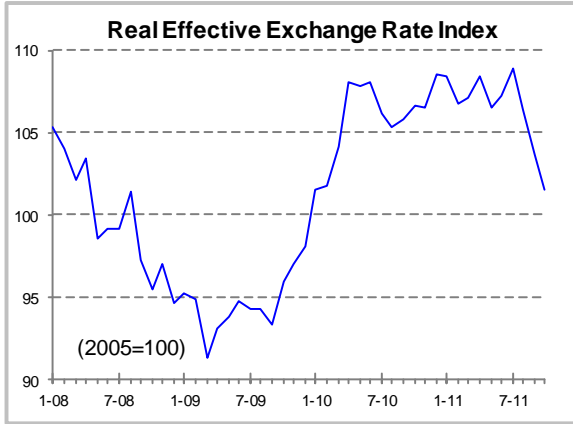
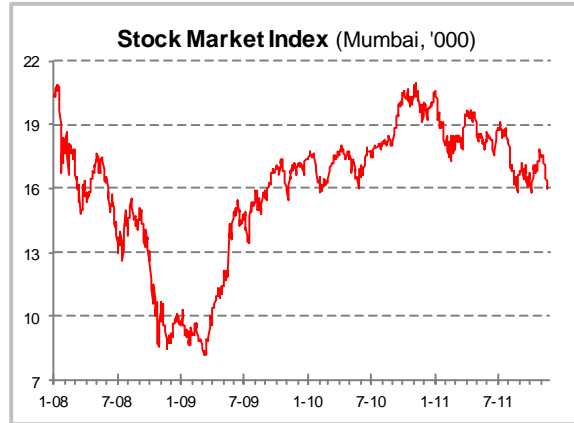
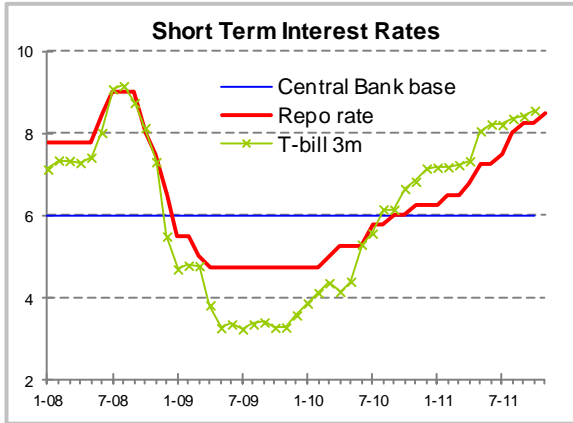
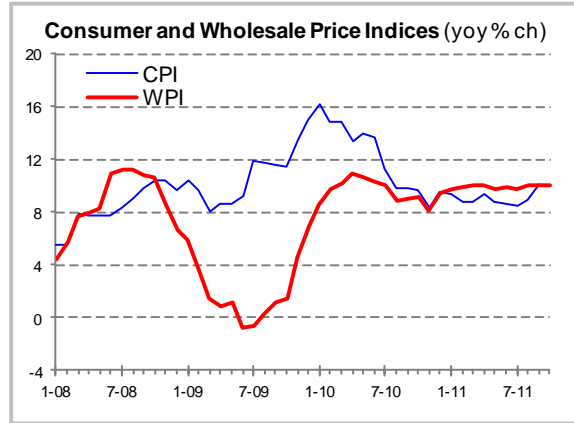
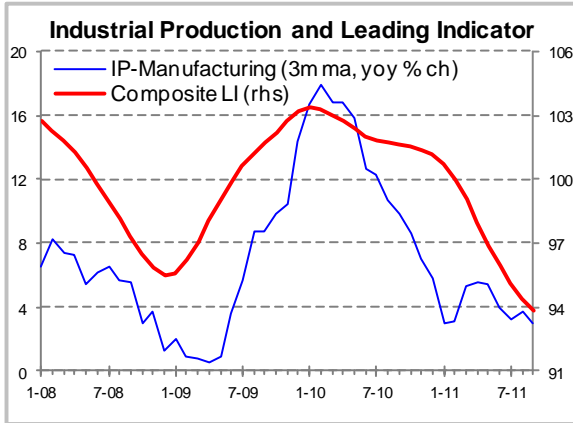
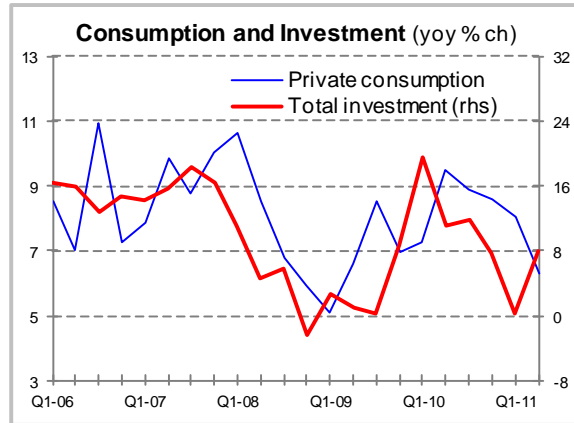
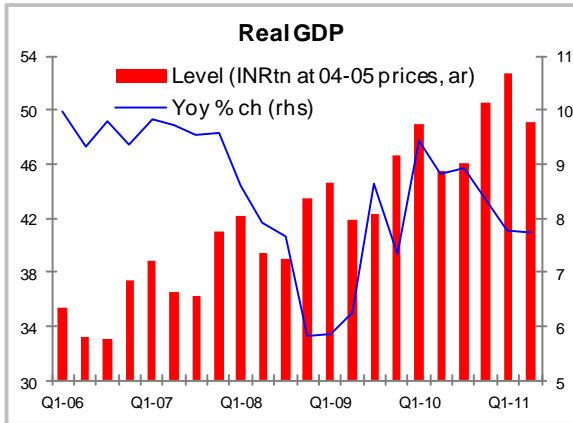
Key message: *The Indian economy has expanded robustly in recent quarters but is also facing rising headwinds as domestic demand is slowing and the global environment is getting increasingly uncertain. Inflation remains a key (structural) issue but the RBI is likely to shift its policy focus more on growth, at least temporarily.*

- Despite the ongoing aggressive monetary tightening the economy remained resilient in Q2 11 and slowed only marginally (+7.7% yoy from +7.8% in Q1). Private consumption decelerated somewhat as did public spending, the latter due to the government commitment to reduce the budget deficit. Investment rebounded sharply (near +8% yoy from the previous anaemic +0.4%) while both import and export gained ground although net export contribution to growth was negative.
- On the supply side, manufacturing accelerated to +7.7% yoy (up from the previous +5.5%) while construction growth plummeted to +1.8% yoy (down from the +8.2% in Q1 11). This was in part due the ongoing monetary tightening negatively impacting on real estate activity, but also to administrative bottlenecks. Overall services (making up 58% of India's GDP) continued to keep up well at a 10% yoy growth rate in contrast to agriculture which grew by 3.9% (the slowest figure in four quarters).
- Recent data confirm that the economy is losing momentum. Manufacturing production grew by a meagre 2.1% yoy in September, decelerating from the previous month 4.5% and other high-frequency industrial gauges such as the purchasing managers index and the core infrastructure index also weakened. The leading indicator is also clearly pointing to a slowdown although the good monsoon season this year should yield a rebound in agriculture output.
- Inflation accelerated sharply in September (up to 10.1% from the previous 9%) on high food and fuel prices. In spite of the monetary tightening, inflation is proving more sticky than expected. The incoming slowdown coupled with a good agriculture harvest in H2 11 should however help taming price pressures. This is the likely reason why the Reserve Bank of India (RBI), while delivering a further policy rate hike (the 13th since March 2010) in late October, signalled to be backing away from its hawkish stance. The RBI is in fact becoming increasingly concerned on the economic slowdown, which is also having negative consequences on the fiscal front.

Last summer sizeable fall of the rupee vs the US\$ may be related to both increasing uncertainty in global financial markets and the persistence of high inflation (a depreciation helps to stem a real exchange rate appreciation caused by higher inflation).

n. 3 - November, 25th 2011

INDIA



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

CHINA

Real Indicators*	2008	2009	2010	Latest
GDP	9.6	9.2	10.3	9.4 Q3
Industrial Production	12.5	11.6	15.3	13.2 Oct
Consumer Prices	5.9	-0.7	3.3	5.5 Oct
Producer Prices	6.9	-5.4	5.5	5.0 Oct
Trade Balance (US\$bn)	360.7	249.5	254.0	171.3 Q2°
as a percentage of GDP	8.0	5.0	4.3	2.6
Real Effective Exchange Rate Index [§]	114.1	118.7	118.0	126.4 Oct

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

Financial Indicators				
1Y Lending Rate	7.0	5.3	5.4	6.6 Oct
Stock Exchange Index (Shanghai) (% ch)*	-27.3	-10.4	3.0	-14.7 23/11/11**

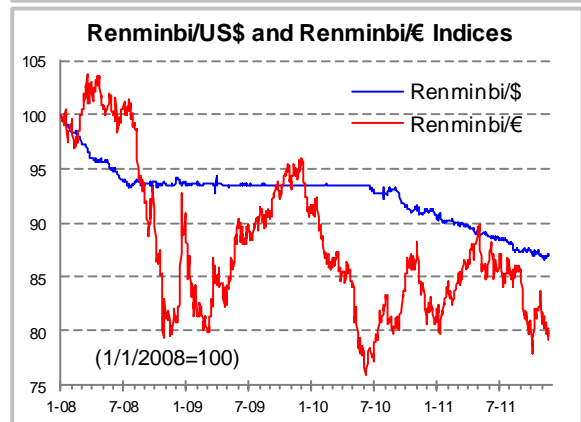
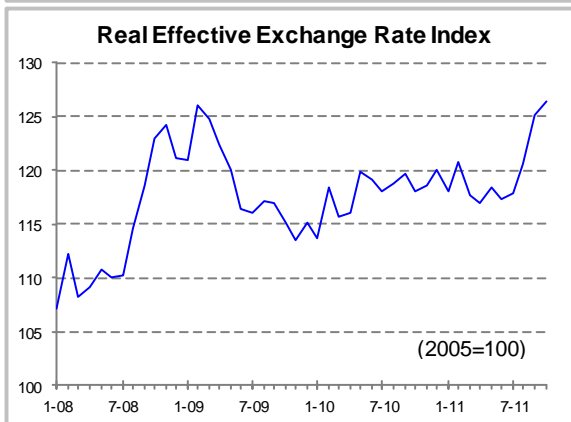
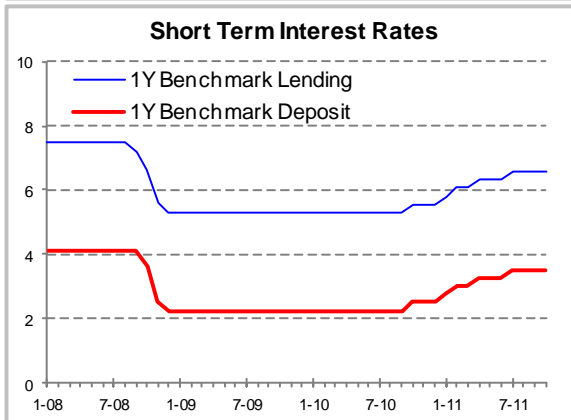
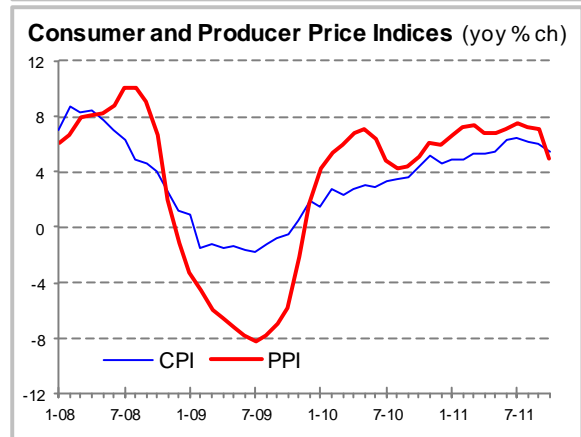
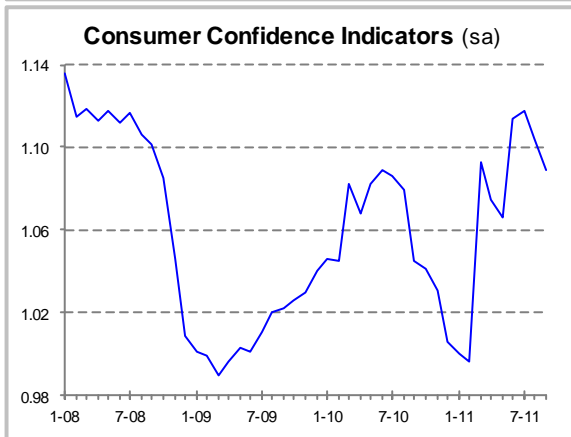
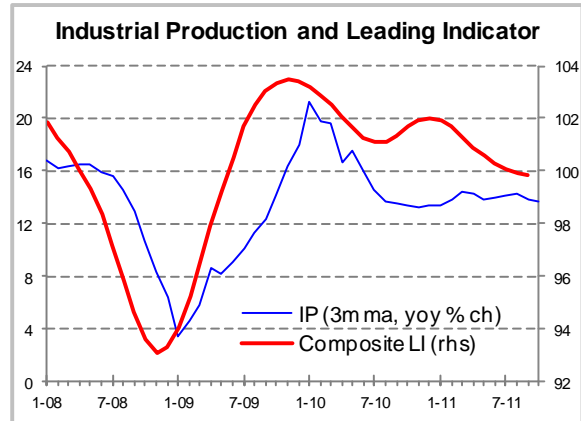
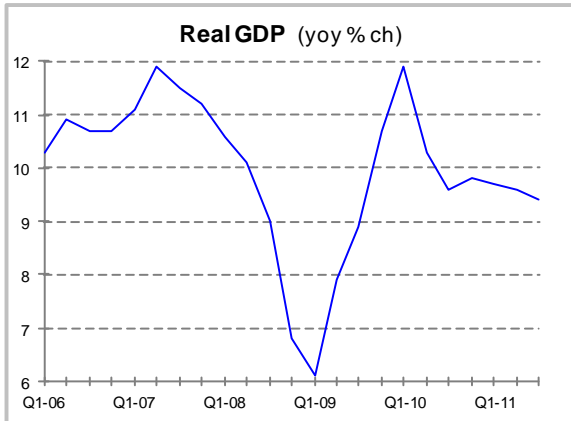
* Average over year; ** % change on 31/12/10

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

Key message: *China has enjoyed so far a solid growth momentum but downside risks are mounting coming both domestically via a risky shadow financial sector and huge local government debts and externally via a rapidly deteriorating global environment. The disinflation process goes on successfully.*

- GDP growth decelerated in Q3 11 recording +9.1% yoy, a still robust figure, though the slowest in more than two years. Monetary tightening appears to cause some cooling in the economy while in perspective weaker demand from major advanced economies should yield further slowing down.
- The economy keeps sending mixed signals: on the one hand, robust industrial production, business sentiment indicators and exports point to a continuing healthy albeit moderating economic scenario; on the other hand, serious fault lines are emerging in the real estate with severe implications in the so-called “grey” finance sector. Also worrying is the size of local-government debts, although a partial central government bailout could be assumed.
- As for the “grey” finance sector, this is the country’s (unregulated) shadow financial network offering lending outside the normal banking system whose scale is obviously difficult to assess. It is widely believed that these banks have stepped up lending to property developers significantly since the government started introducing tightening measures to curb the housing boom. Now that the property sector is cooling down - and it is not yet clear whether this could herald more severe contraction ahead – systemic effects via the “grey” finance could be sizeable.
- Inflation eased dramatically in October, down to 5.5% from the previous month 6.1%, on sharply decelerating food prices (down to 11.9% from the previous 13.4%) and tame non-food inflation (2.7%). Also producer prices decelerated significantly to 5% down from last July’s peak of 7.5%. In perspective, inflation figures should also benefit from favourable statistical base effects. The marked reduction in inflationary pressures is at last materialising following five interest rate hikes and nine reserve rate requirements increases from the Central Bank.
- As a mild slowdown is approaching, particularly due to adverse global developments, the government is shifting towards the growth preservation target in the inflation-growth balance. Some fiscal easing is already underway, mostly in terms of tax reductions, while substantial increases in spending are unlikely. Should the economy slide more than expected reserve requirement ratios could be lowered again following the first such move late in November, while there is wide consensus a reversal in the interest rate policy stance is not in the pipeline (at least as long as inflation does not fall below 3-3.5%).

CHINA



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

KAZAKHSTAN

Real Indicators*	2008	2009	2010	Latest
GDP	3.3	1.2	7.0	7.6 Q2
Industrial Production	4.7	2.7	10.0	1.5 Oct
Consumer Prices	17.1	7.3	7.4	8.0 Oct
Producer Prices	36.8	-22.2	25.3	31.6 Sep
Unemployment Rate (%)	6.6	6.6	5.7	5.3 Q3
Current Account Balance (US\$bn)	6.3	-4.1	3.0	7.9 Q2°
as a percentage of GDP	4.7	-3.5	2.1	4.9
Real Effective Exchange Rate Index [§]	111.4	103.9	107.4	108.3 Sep

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

Financial Indicators

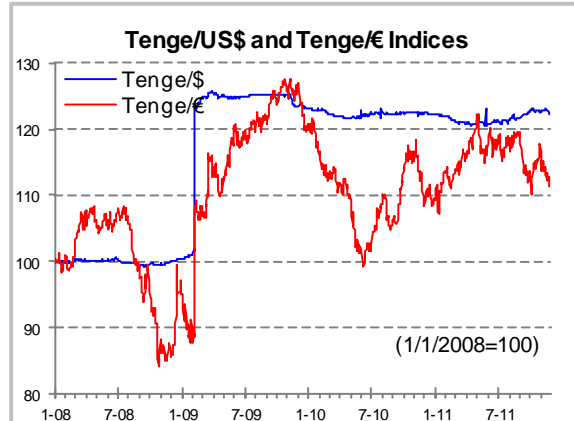
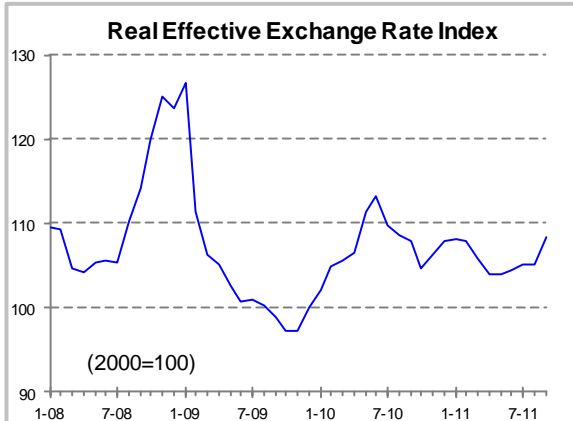
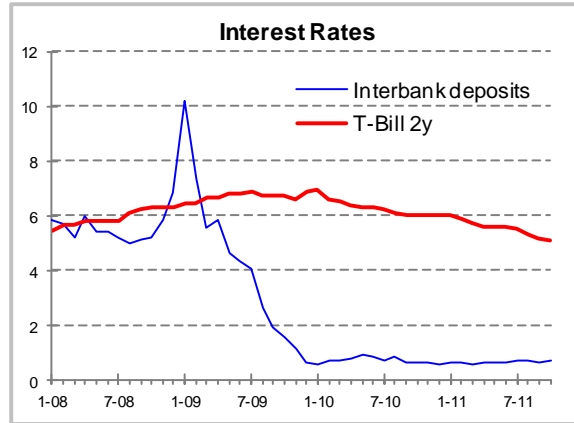
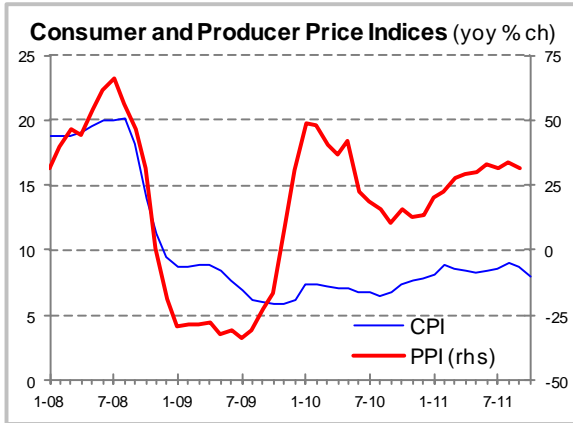
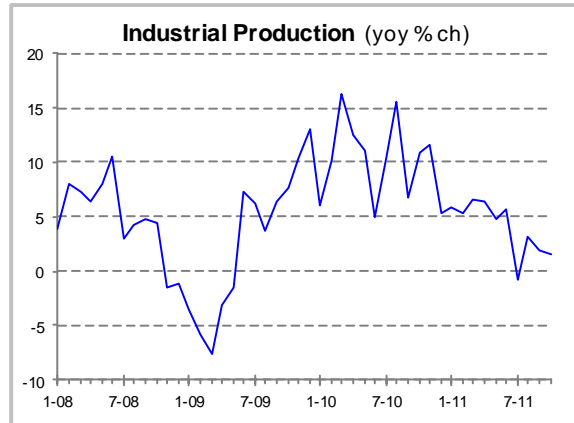
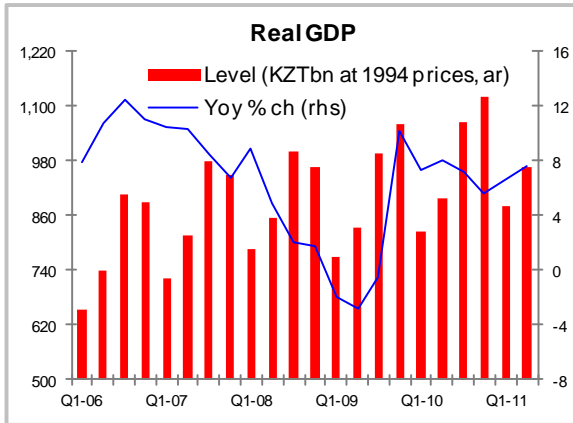
Refinancing Rate (end of period)	10.8	8.3	7.0	7.5 Oct
Short Term Interest Rate pa (<1 year)	6.3	4.6	1.6	1.5 Oct
Exchange Rate Tenge/\$	120.3	147.6	147.4	148.0 Oct

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

Key message: *The economy keeps growing healthily and boasts current account and fiscal surpluses also thanks to prudent macroeconomic management. It remains exposed to external headwinds related to its reliance on commodity export while the banking sector is still vulnerable as banks' asset quality has deteriorated and non-performing loans remain very high.*

- The economy continued to expand robustly in Q2 11 (+7.6% yoy) driven by healthy industrial and services' output, while agriculture and construction remained subdued. There is also evidence that private consumption remained strong contrary to a still weak investment performance.
- The above developments are strictly related on the one hand to high commodity, particularly energy, prices which clearly supported exports, and, on the other hand, to the still difficult banking sector conditions which in turn limit the availability of credit and hence investment financing. More recent data, however, point to an ongoing recovery in loan activity.
- Agriculture is rebounding on the back of a record grain harvest this year. On the other hand, industrial production has decelerated significantly over the summer months particularly in the mining sub-sector.
- Inflation moderated in October though remaining high at 8% after having peaked in August at 9%. Food price pressures are moderating and should continue to ease thanks to the good agricultural season.
- The Government recently passed the 2012 draft budget aimed at reducing its fiscal imbalance from an estimated 2.6% deficit to GDP ratio this year to 1.3% in 2014. Including flows from the Oil Fund (one-half of the projected revenues will be accumulated and one-half transferred to the budget), prospects are of continuing overall fiscal surpluses. The IMF has recently praised the government for the usage of the Oil Fund (which is currently rather conservative), with more funds for instance devoted to education.
- Strong growth prospects coupled with a favourable situation of twin surpluses (on the external and the fiscal accounts) earned Kazakhstan a sovereign upgrading by Standard & Poor's early in November.

KAZAKHSTAN



Source: National Bank of Kazakhstan