Economic and Social Studies

Economic Profile in ITC Group Countries

N. 3 November, 26th 2012

Global Economic Conditions:

- Real Indicators
- Financial Indicators

Countries:

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

Key to Abbreviations

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

Based on information up to November, 26th 2012

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

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Highlights

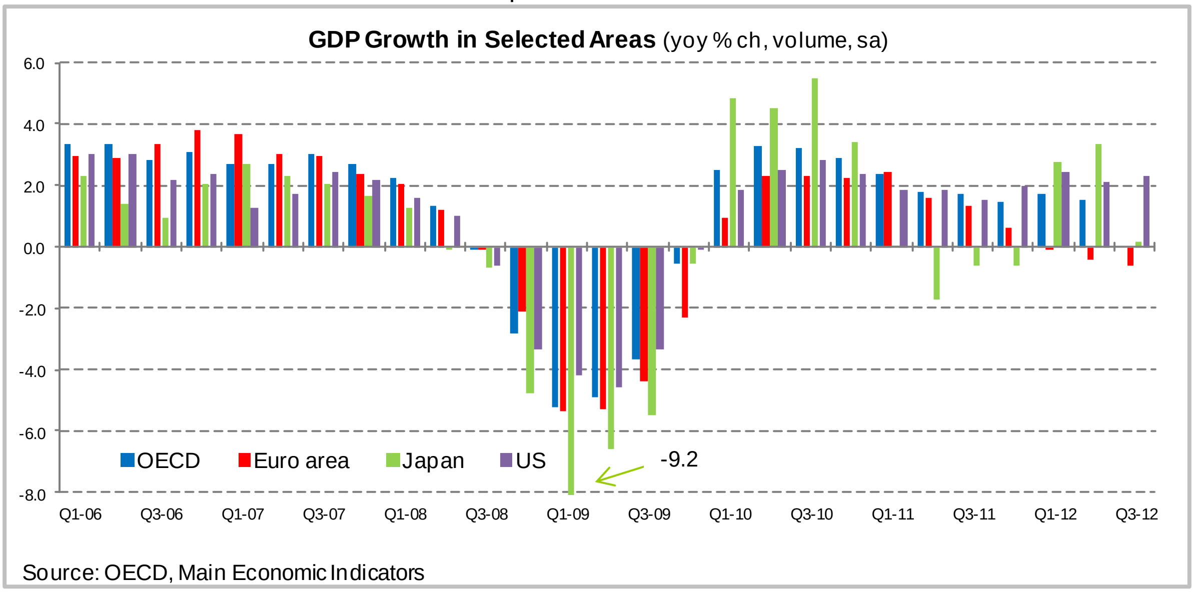
- Mixed signs have emerged of late from a world economic environment that remains highly turbulent and unstable.
- On the one hand the risks of a euro collapse have somewhat receded, mainly thanks a more assertive ECB stance, through the launch of a new intervention tool aimed at stabilizing financial markets as well as at easing the conduct of monetary policy.
- In addition, in China (and elsewhere in the emerging area), also thanks to monetary and fiscal easing, there is growing sentiment that the ongoing slowdown has come to a halt and that in the next few months some hints of a rebound will be seen.
- Actually, a number of real indicators (international trade, industrial production, order books, confidence) could signal that the worst is over, and better figures could be delivered soon ahead.
- On the other hand, uncertainty looms still large on many fronts, representing by itself a strong brake on investment and consumption decisions in the advanced countries.
- For a start, risks of a sudden worsening of the fragile European context are far from eliminated as long as the Greek stabilisation remains under scrutiny and the overall stance of the EU economic policy tilted towards austerity without any initiative to spur growth.
- In addition, the US elections have not made clear which policy mix will be adopted in order to avoid the "fiscal cliff": in fact, with a still divided government (Presidency versus Congress), the search for a compromise will take time.
- It is in any case widely believed that some tightening of fiscal policy will be carried out, which will contribute to keep the US economy on a soft patch also in 2013.
- An additional source of uncertainty stems from the geo-political dynamics, the major risks coming from the MENA region, where the Israeli-Iran confrontation, the Syrian revolt, and a far from finally at peace Iraq are all threats to the stabilisation of the whole area, hence to more normal and stable conditions prevailing on energy markets.
- On balance, four years from the break out of the financial crisis, the industrial economies remain trapped into a disappointing condition, with financial markets far from stabilised, households and government sectors' balance sheets still overburdened with debt, high unemployment and widely spread poor confidence levels. In such conditions even a continuing, strong expansion of the emerging zone will not be sufficient for the whole world economy to recover trend-like growth, at least in the 2013 horizon.

GLOBAL ECONOMIC CONDITIONS: Real Indicators

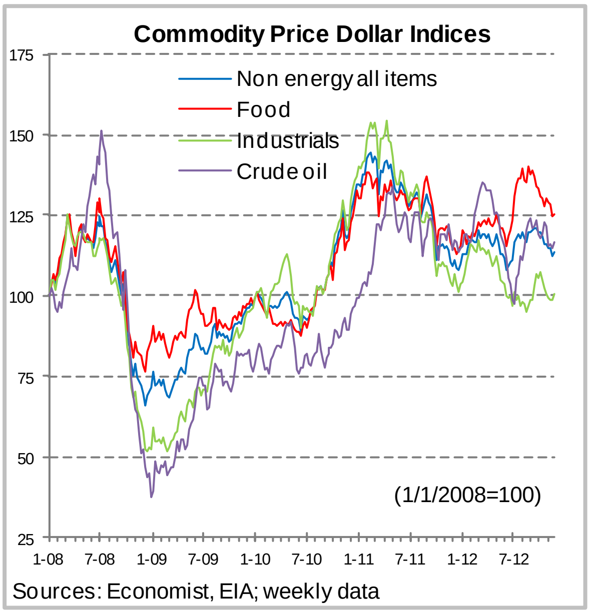
yoy % ch (unless otherwise indicated)		2009	2010	2011	Latest
GDP:	OECD	-3.6	3.0	1.8	1.6 Q2
	Euro Area	-4.4	2.0	1.5	-0.6 Q3
	US	-3.1	2.4	1.8	2.3 Q3
	Japan	-5.5	4.5	-0.7	0.2 Q3
Inflation:	US	-0.4	1.6	3.2	2.2 Oct
	Euro Area	0.3	1.6	2.7	2.5 Oct
Oil Price Level	(Brent, $/barrel)	61.9	79.6	111.0	111.7 Oct
	(yoy % ch)	-36.7	28.7	39.4	1.9

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

- The global economy has weakened since Q2 12 with GDP data surprising on the downside as the euro area is stuck in recession, the US trails along a soft patch, Japan has deteriorated again and most emerging economies have decelerated. The latter have lost momentum both because of tighter economic policies enacted to avoid overheating and due to weaker advanced economies.
- This worse than expected environment has led the IMF to revise world forecasts downward last October for both this year and the next as the global economy continues to face two major risks: the euro zone sovereign debt crisis and the fiscal cliff in the US (see the US section).
- The distribution of growth over the globe is set to become even more uneven. In recent weeks, data from emerging countries have shown signs of improvement as a response to ongoing reflationary policies. China appears to be bottoming out, thus proving that the soft landing engineered by its policy makers has been successful, and also Latin America is gaining steam. On the other hand, among the advanced economies, the US continue to perform lacklustre (with the fiscal cliff's Damocles' sword) while the euro area remains the world's weakest link.
- Commodity prices have been trending downwards in recent months signalling softening economic momentum. Notably, food price tensions have somewhat receded following drought-induced spikes in early Summer, while oil prices are still subject to considerable uncertainty given the ongoing political tensions in the Middle East.
- Inflation is generally stabilising. Administrative measures are in some cases (such as in Southern euro area countries) pushing up prices while last summer food price hikes have not given the much feared kick-start to fast consumer price acceleration.

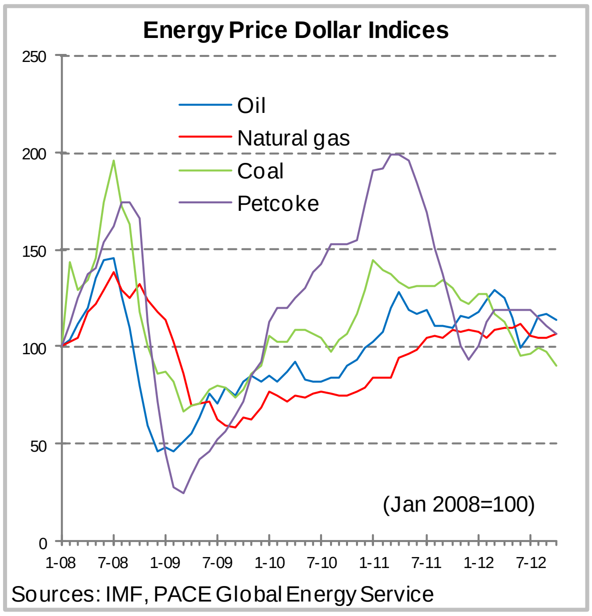


REAL INDICATORS



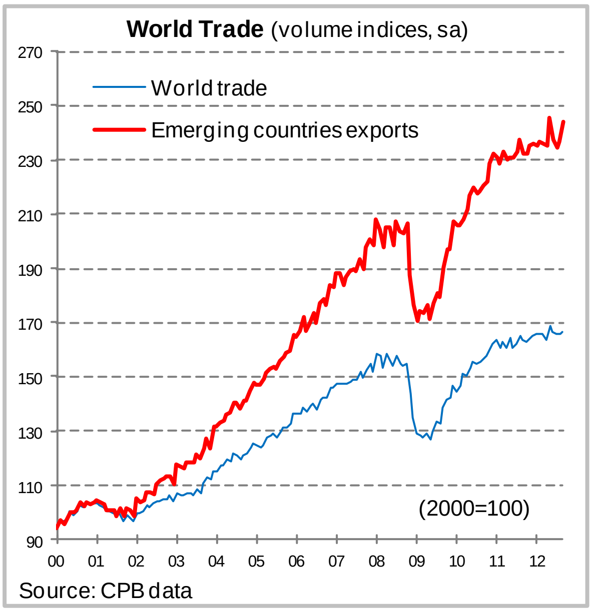
Commodity Price Dollar Indices

Sources: Economist, EIA; weekly data



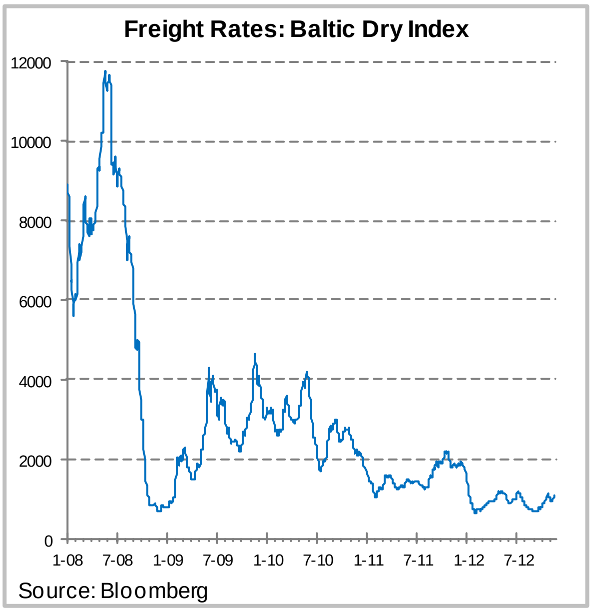
Energy Price Dollar Indices

Sources: IMF, PACE Global Energy Service



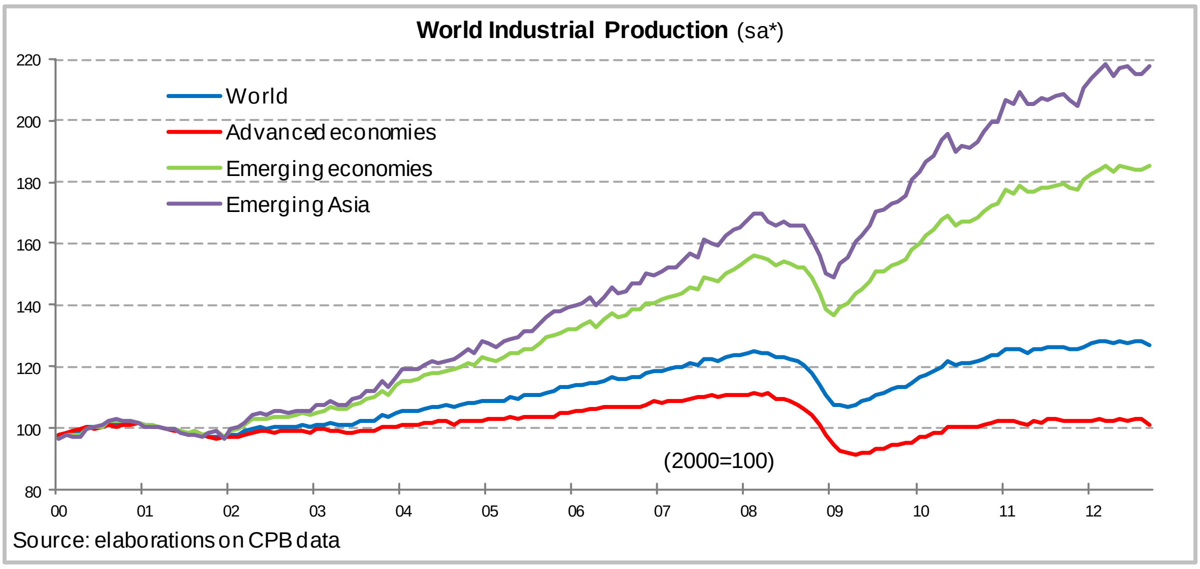
World Trade (volume indices, sa)

Source: CPB data



Freight Rates: Baltic Dry Index

Source: Bloomberg

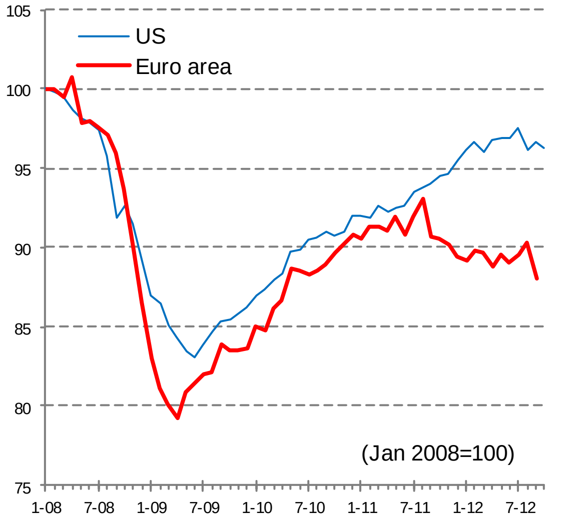


World Industrial Production (sa*)

Source: elaborations on CPB data

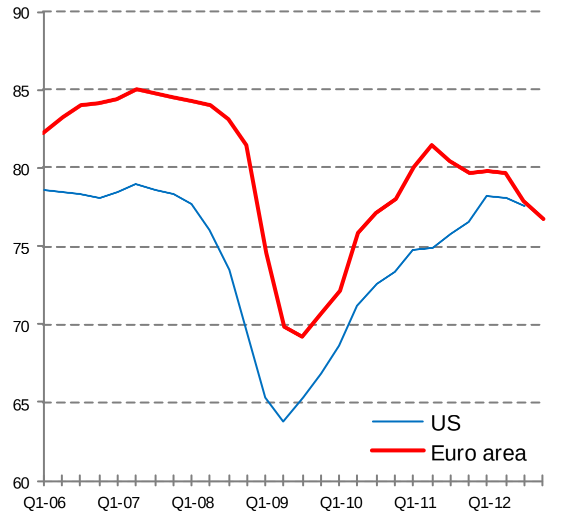
REAL INDICATORS

US and Euro Area: Industrial Production (sa)



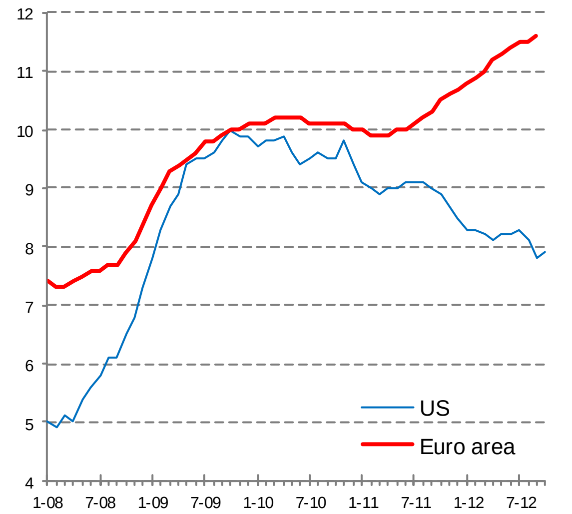
Source: OECD. Main Economic Indicators

US and Euro Area: Capacity Utilisation (%, sa)



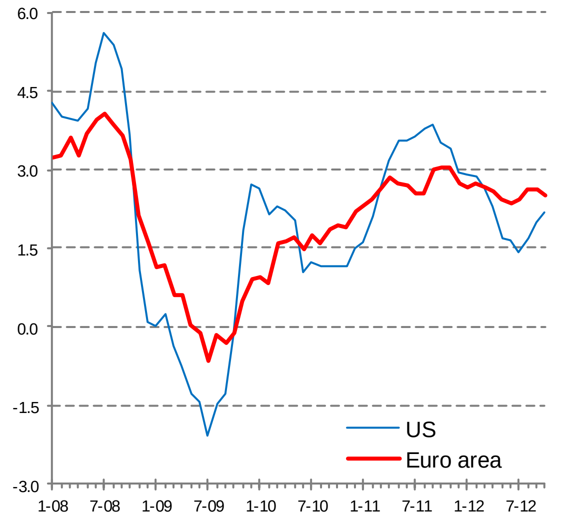
Sources: European Commission, FED

US and Euro Area: Unemployment Rate (%, sa)



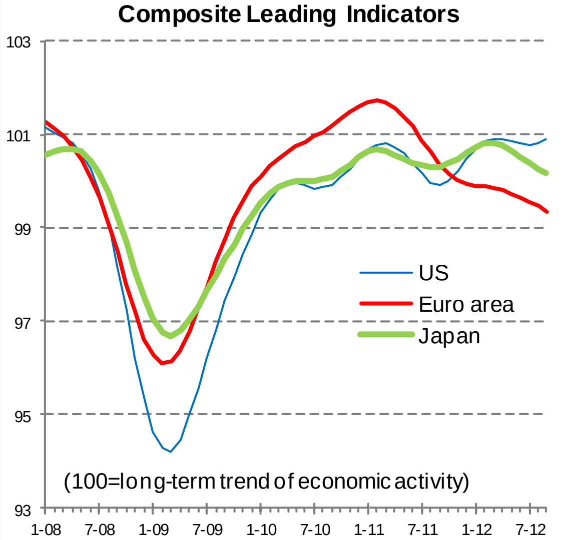
Source: OECD, Main Economic Indicators

US and Euro Area: Consumer Inflation (yoy % ch)



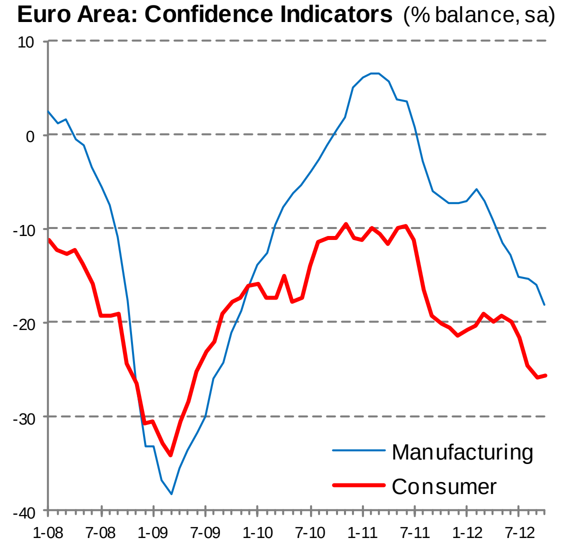
Source: OECD, Main Economic Indicators

Composite Leading Indicators



Source: OECD, Main Economic Indicators

Euro Area: Confidence Indicators (% balance, sa)



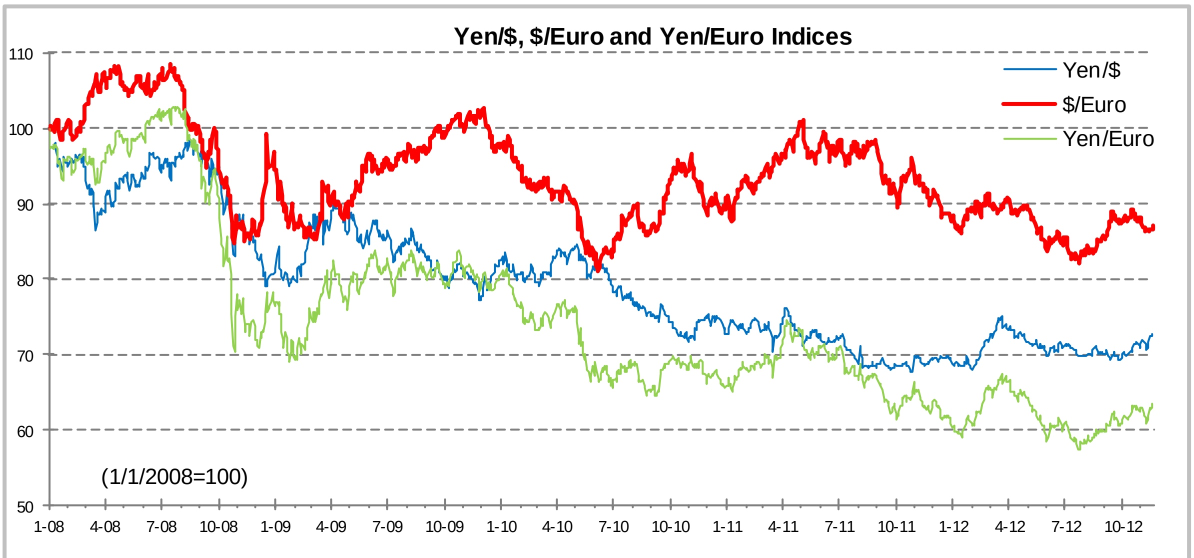
Source: European Economy, Supplement B

GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2009	2010	2011	Latest
Dollar/Euro Exchange Rate	1.394	1.326	1.392	1.283 *
Policy Rates (end of period):				
- US (target for federal funds)	0.0/0.25	0.0/0.25	0.0/0.25	0.0/0.25 16/12/08
- Euro Area (repo rate)	1.00	1.00	1.00	0.75 11/07/12
Long Term Interest Rate (10y government bonds, year average):				
- US	3.26	3.22	2.78	1.75 Oct
- Euro Area	4.03	3.79	4.31	2.31 Oct

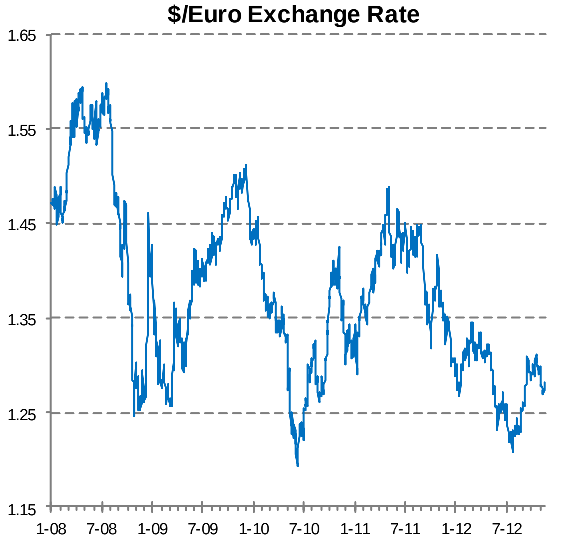
* Average from 2/1/2012 to latest available data
Sources: European Central Bank and Federal Reserve Bank

- Financial markets remain under stress on both sides of the Atlantic. In the euro zone, tensions have somewhat eased since the ECB policy move last Summer (see below) as reflected in significantly narrower spreads on German Bund of southern Europe government bonds and in large gains in the stock exchanges. Bourses performances have, however, turned lacklustre in recent weeks, while fears related to the fiscal cliff issue may help explain the over 5% drop in the US S&P index since mid-September.
- Periodic spikes of financial turmoil are set to recur, a reminder that the global financial system and the real economy are still fragile. Not only is the euro area crisis yet unresolved but also banking systems in many countries, both advanced and emerging, are still weak and vulnerable while credit conditions remain tight particularly in the euro area.
- The ECB toughened its commitment to save the euro last Summer by opening the door to further intervention via Outright Monetary Transactions in secondary markets for government bonds subject to strict conditionality. The aim of the OMT is to safeguard the transmission mechanism of the euro area monetary policy. Meanwhile the Fed has announced another round of quantitative easing (QE3) adding US$600bn to its balance sheet over six months.
- Since the end of July the euro has appreciated vis-à-vis most currencies, which is reflected also in the real effective upward trend of the common currency.

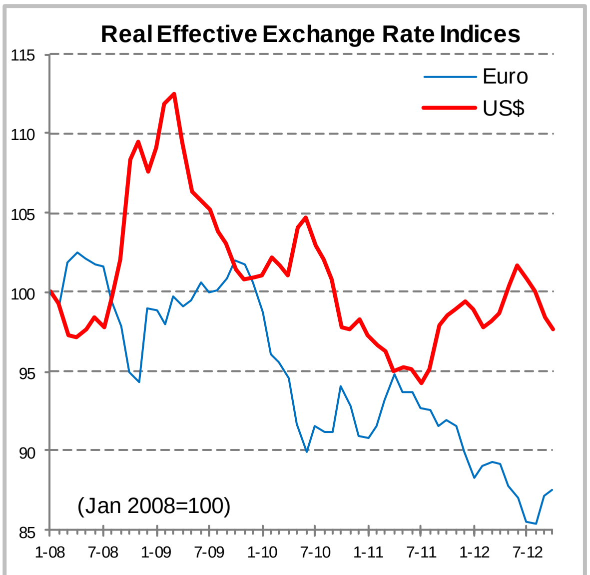


Source: Bank of Italy

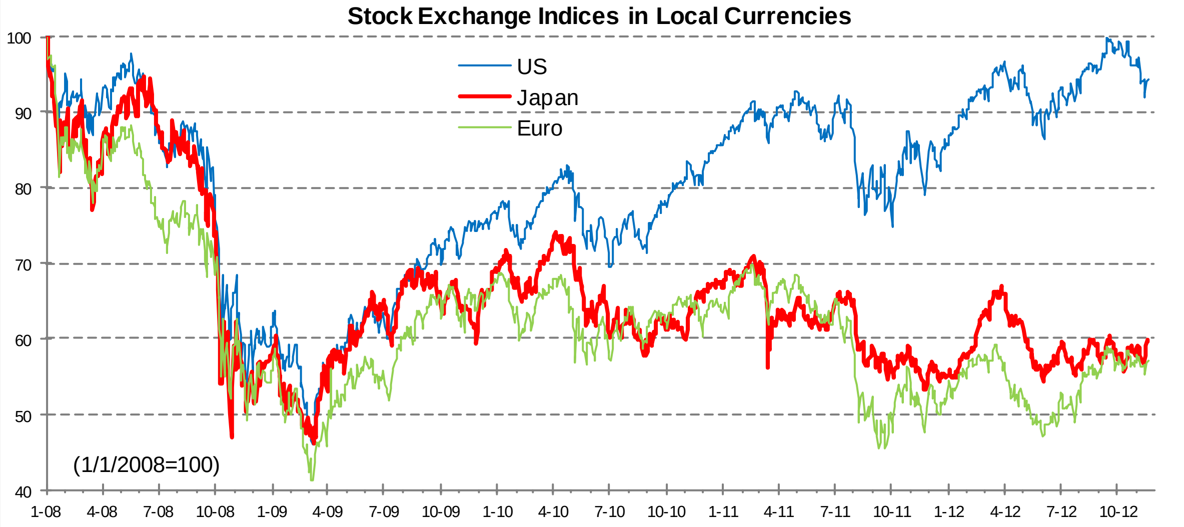
FINANCIAL INDICATORS



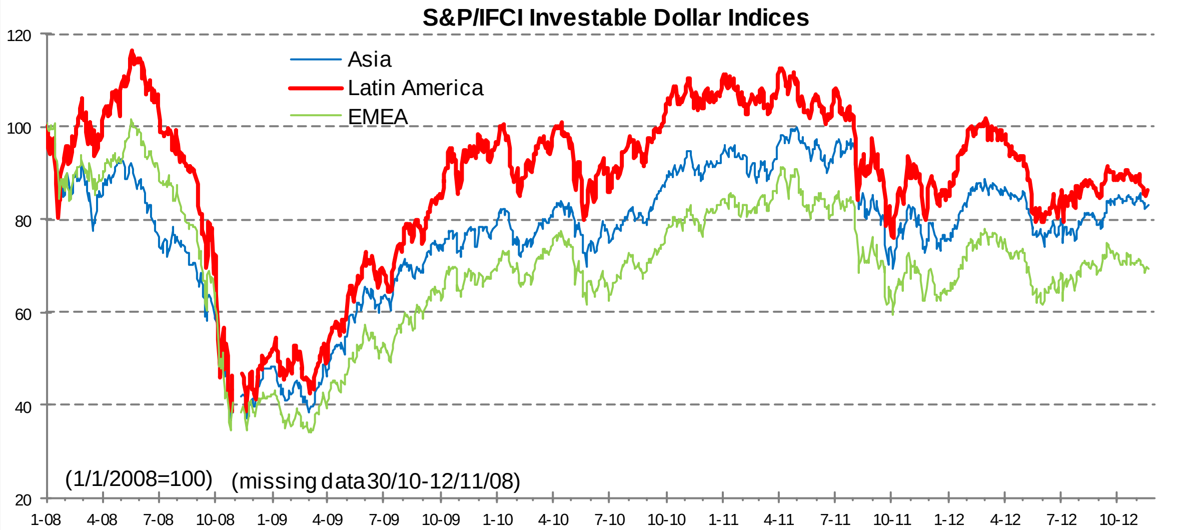
Source: Bank of Italy



Source: European Central Bank, OECD



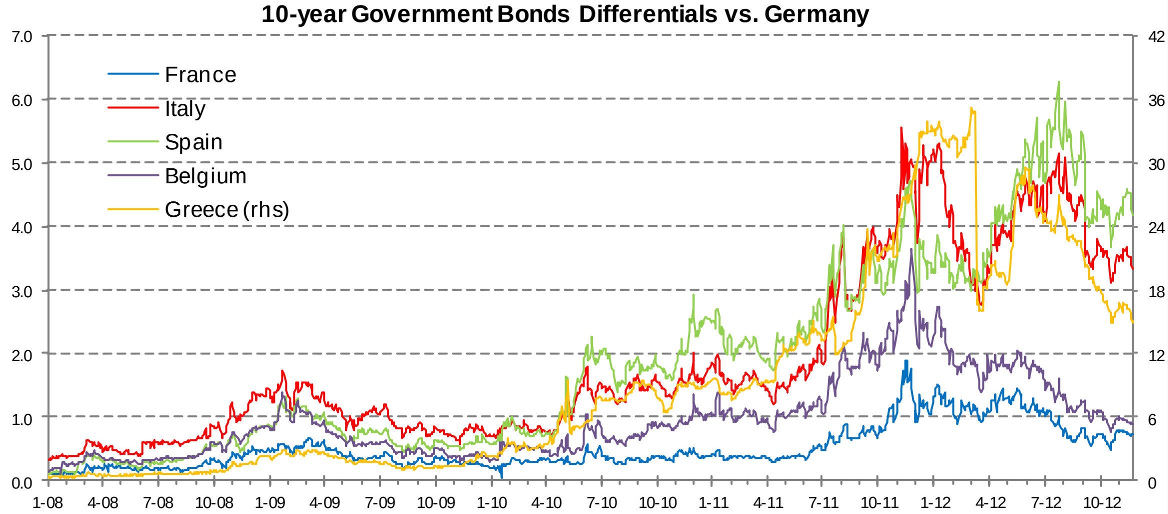
Source: Daily press



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

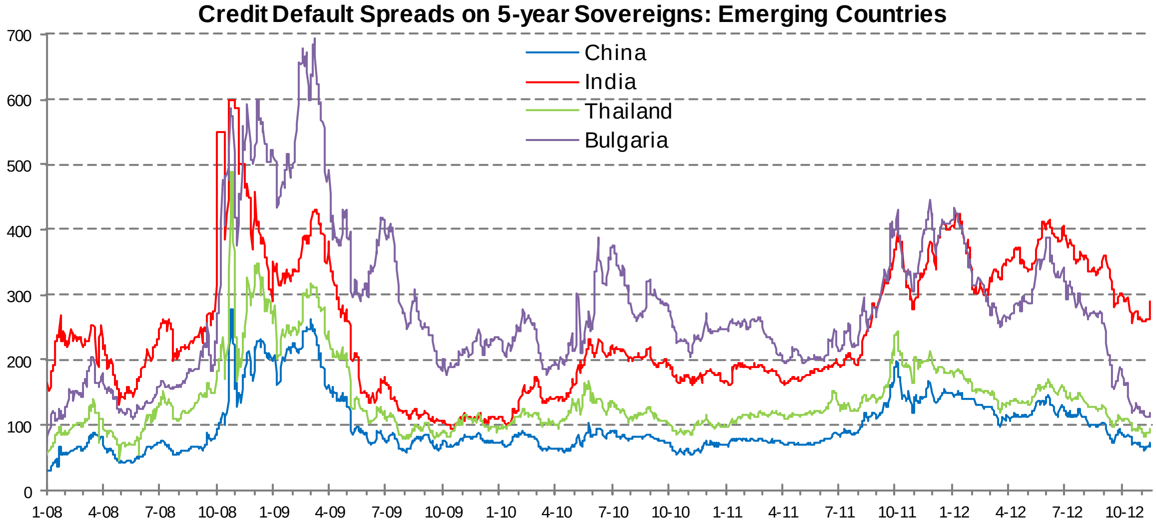
FINANCIAL INDICATORS

10-year Government Bonds Differentials vs. Germany



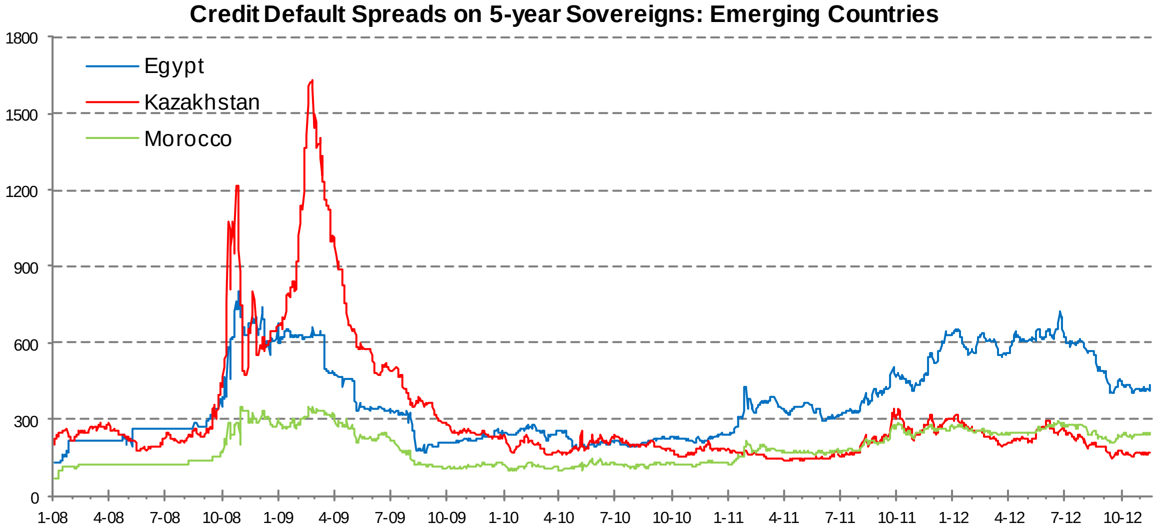
Sources: daily press, Bloomberg; daily data

Credit Default Spreads on 5-year Sovereigns: Emerging Countries



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

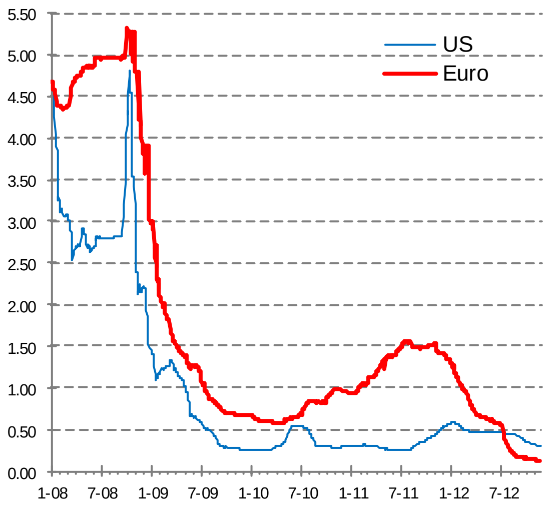
Credit Default Spreads on 5-year Sovereigns: Emerging Countries



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

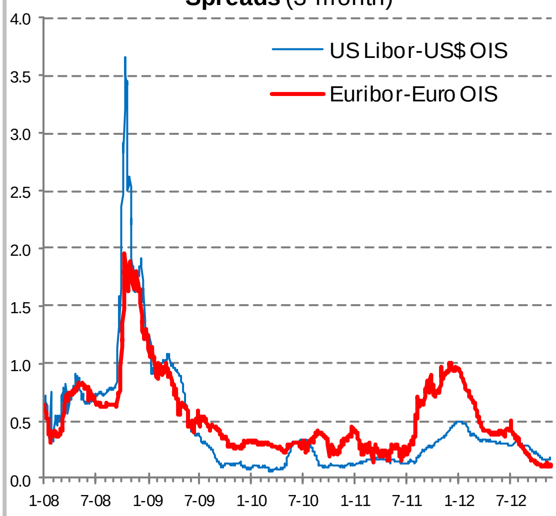
FINANCIAL INDICATORS

Dollar and Euro 3-month Libor



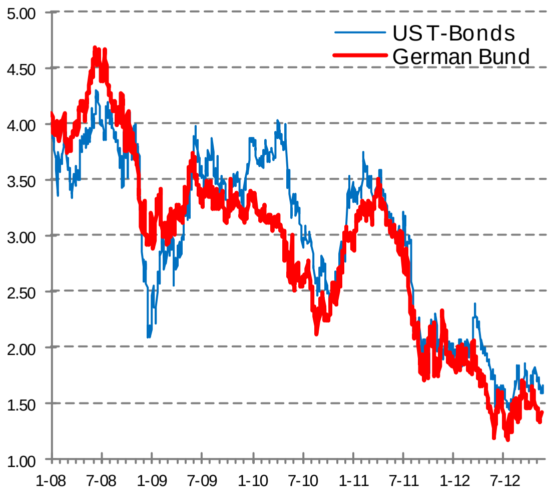
Source: Daily press

US and Euro Area: Overnight Index Swap Spreads (3-month)



Source: Bloomberg, Euribor.it

US and Euro area: Benchmark 10-year Interest Rates

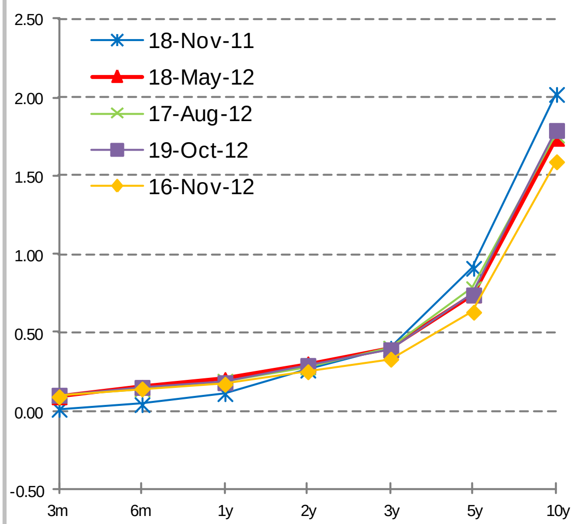


Source: Daily press

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

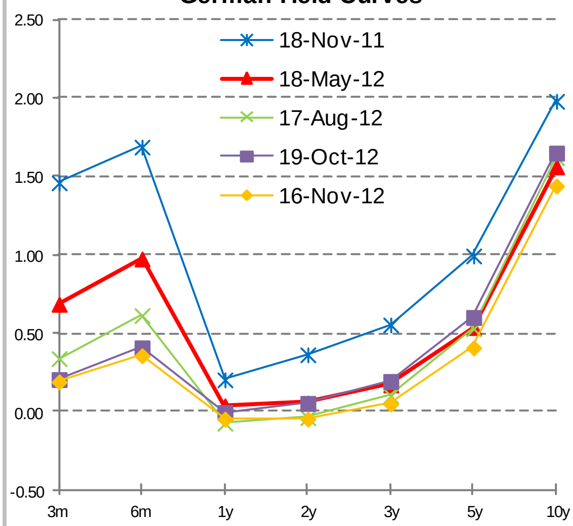
Source: Federal Reserve Bank

US Yield Curves



Average rates for week ending date shown. Source:FED

German Yield Curves



Average rates for week ending date shown.Source:DBB

UNITED STATES

Real Indicators*	2009	2010	2011	Latest
GDP	-3.1	2.4	1.8	2.3 Q3
Industrial Production	-11.4	5.4	4.1	-0.4 Oct**
Construction Investment	-17.1	-8.1	-2.5	5.3 Q3
Consumer Prices***	-0.4	1.6	3.2	2.2 Oct
Producer Prices – Finished Goods***	-2.6	4.2	6.0	2.3 Oct
Hourly Earnings – Manufacturing***	2.8	2.0	1.8	0.8 Oct
Standardised Unemployment Rate (%)	9.3	9.6	9.0	7.9 Oct
Current Account Balance (US$bn)	-381.9	-442.0	-465.9	-477.8 Q2°
as a percentage of GDP	-2.7	-3.0	-3.1	-3.1
Real Effective Exchange Rate Index§	104.5	100.0	95.0	96.3 Oct

* % yoy ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (3m CD)	0.55	0.31	0.30	0.23 Oct
Long Term Interest Rate pa (benchmark 10y)	3.26	3.22	2.78	1.75 Oct
Stock Exchange (S&P 500) Index (% ch)*	-22.5	20.3	11.3	10.2 20/11/12**

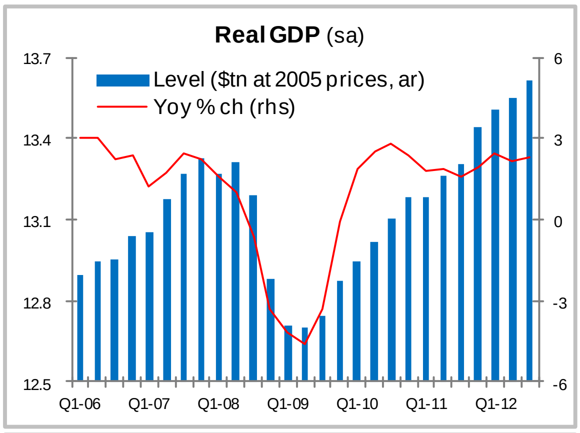
* Average over year; ** % change on 30/12/11

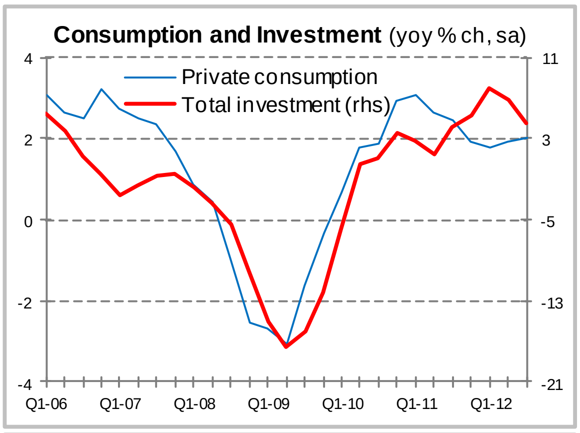
Sources: OECD, FED, Bureau of Economic Analysis, Bank of International Settlements (BIS), daily press

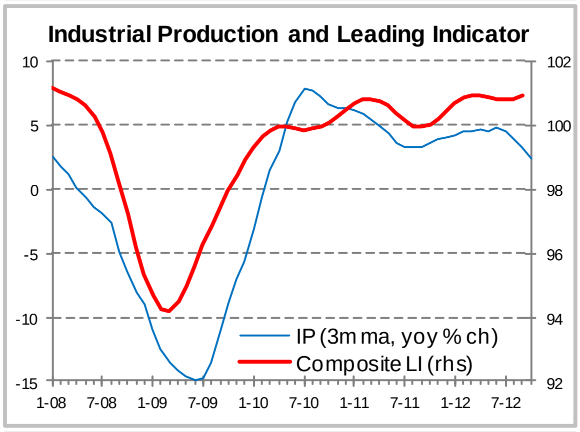
***Key message**: The US economy maintains a soft momentum and is now facing major headwinds: weak export and, most importantly, uncertainty about the fiscal cliff issue. In this respect, reaching a political compromise on federal fiscal policy soon appears unlikely.*

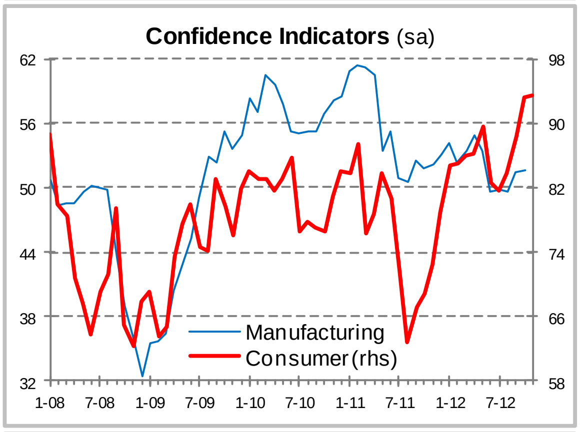
- GDP accelerated somewhat in Q3 12 but the improvement relative to Q2 came mostly from government spending in defence. As a matter of fact, the underlying growth momentum appears weak with only households' durable goods expenditure and residential construction - these two items being correlated - exhibiting a solid pace.
- Business investment almost stagnated, held back by uncertainty abroad and at home ahead of presidential election and of the looming fiscal cliff (a series of tax and spending rules under current law which will expire as scheduled next year; if not modified this would severely tighten fiscal policy in 2013 and send the US back into recession, see also below) while inventories were a drag on growth (in part due to last Summer drought which caused large stock draw-downs in farms). Both export and import fell but the net contribution was nil.
- Higher frequency data are mixed. Confidence among households has jumped to its highest level since mid-2007 as the job market has improved, personal incomes are on the rise and the housing market is brightening. In addition, the average American family does not seem to worry about the fiscal cliff nor the euro zone sovereign debt crisis and the world economic slowdown. On the other hand, many businesses are seriously worried about the above issues and have started pulling back on investment in recent months.
- Manufacturing activity dropped in October although mostly as an effect of Hurricane Sandy in the Northwest. According to Fed's estimates, had not been the Hurricane, output level would have been almost unchanged relative to September.
- Following President Obama's re-election, the political focus is now on addressing not only the fiscal cliff issue but also the Treasury's statutory debt ceiling which will be reached later this year or at most within March. The economic cost of the fiscal cliff would be so high that the search of a political compromise has started in earnest although it is still too early to foresee the likely mix of tax and expenditure decisions which will be taken. For sure, the longer it takes to reach an agreement the larger the toll on confidence and thus investment and job creation.

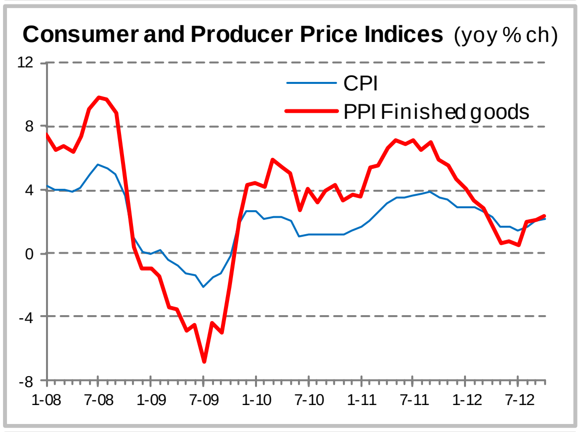
UNITED STATES

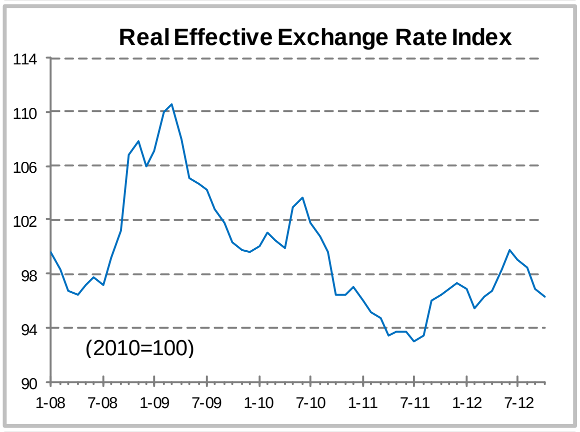


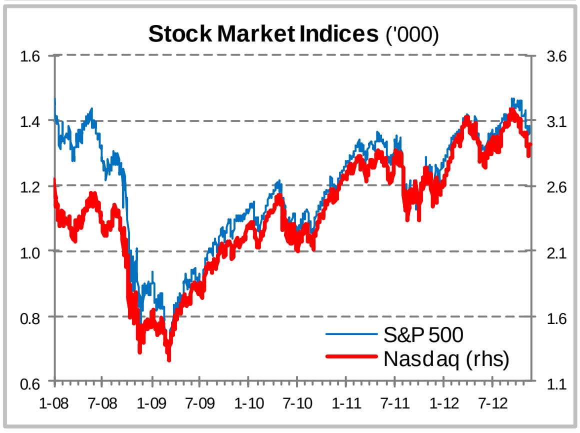


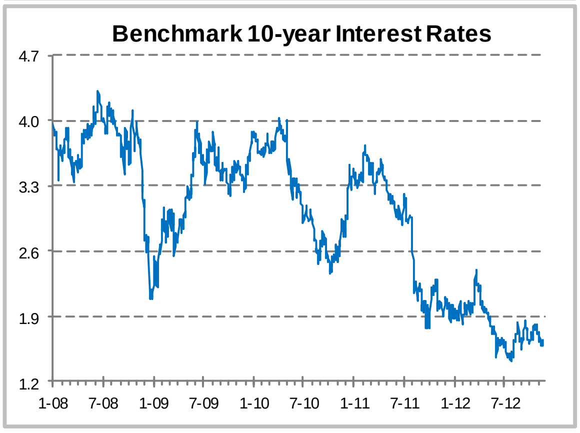












Sources: OECD, Bureau of Economic Analysis, Bureau of Labor Statistics, BIS, daily press

CANADA

Real Indicators*	2009	2010	2011	Latest
GDP	-2.8	3.2	2.6	2.9 Q2
Industrial Production	-11.5	6.1	3.5	-0.4 Aug**
Construction Investment	-10.9	9.2	4.7	4.9 Q2
Consumer Prices***	0.3	1.8	2.9	1.2 Oct
Producer Prices - Manufacturing***	-3.5	1.0	4.6	-0.3 Sep
Hourly Earnings - Manufacturing***	-5.0	4.9	3.2	3.4 Aug
Standardised Unemployment Rate (%)	8.3	8.0	7.4	7.4 Oct
Current Account Balance (Can$bn)	-45.2	-50.9	-48.4	-47.8 Q2°
as a percentage of GDP	-3.0	-3.1	-2.8	-2.7
Real Effective Exchange Rate Index§	91.6	100.0	101.6	101.5 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (o/n)	0.39	0.60	1.00	1.00 Oct
Long term interest rate pa (benchmark 10y)	3.23	3.24	2.79	1.82 Sep
Stock Exchange (TSE) Index (% ch)*	-18.7	18.7	7.4	0.5 20/11/12**

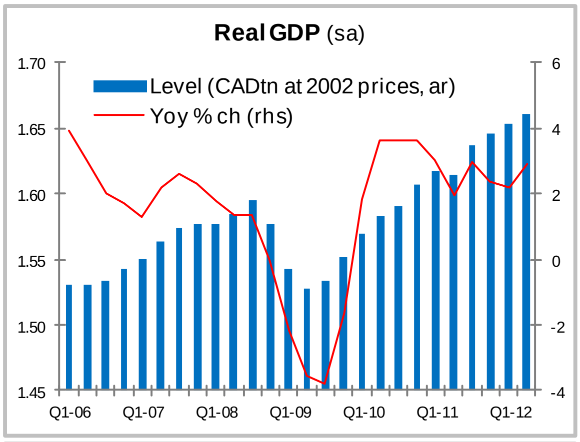
* Average over year; ** % change on 30/12/11

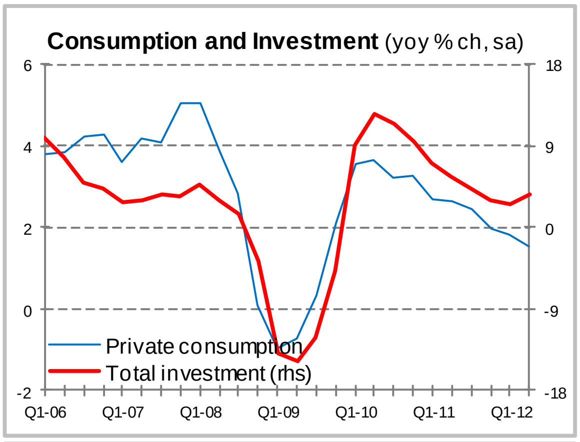
Sources: OECD, Statistics Canada, BIS, daily press

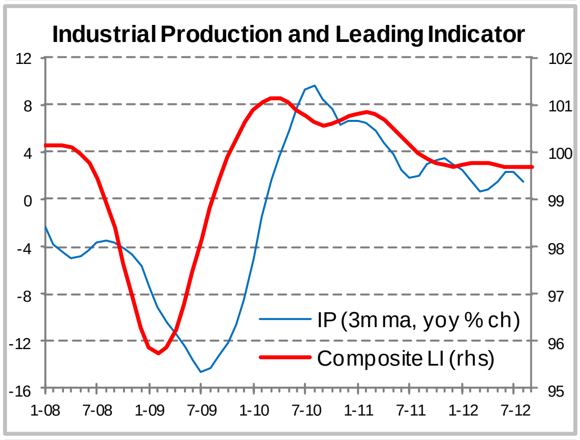
***Key message**: The Canadian economy has been performing more healthily than its G7 counterparts, bolstered by high commodity prices and the lower need to implement harsh fiscal consolidation. The economy is showing some sign of losing momentum and is exposed to major risks (a sharp slowdown in the US related to the fiscal cliff issue, softening world growth, and the household debt bubble).*

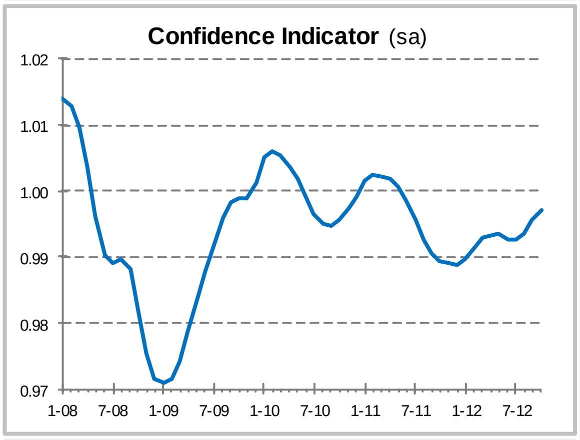
- GDP growth in Q2 remained solid maintaining a fairly stable pace (at +0.5% qoq) led by domestic demand, particularly business investment, while net exports were a drag on growth. As for the latter, export continued to slow while the investment expansion drove an import spurt.
- Monthly GDP data (estimated on the output side) for July and August have been mixed, positive first and negative afterwards. Manufacturing fell by 0.6% mom in August following a healthy +0.9% in July. The manufacturing PMI has declined in recent months but remains still in the expansion zone.
- In its October monetary policy report the Bank of Canada (BoC) hinted at a softening stance as the case for raising interest rates appears to have weakened relative to a couple of months ago given the ongoing slowdown and the low inflation rate prevailing. The BoC continues to be worried, however, about the size of the household debt which it deems will continue to rise until levelling off only in 2015.
- Residential construction is showing signs of weakening: one potential risk is that a more sudden deterioration could cause an abrupt reduction in consumer spending via steep house price declines.
- The government has recently revised upwards its deficit projection for fiscal year 2012/13 (April-March) and delayed to 2016/17 the achievement of a zero deficit as its focus has switched away from exclusively targeting deficit elimination and towards sustaining growth and job creation while still pursuing fiscal consolidation.

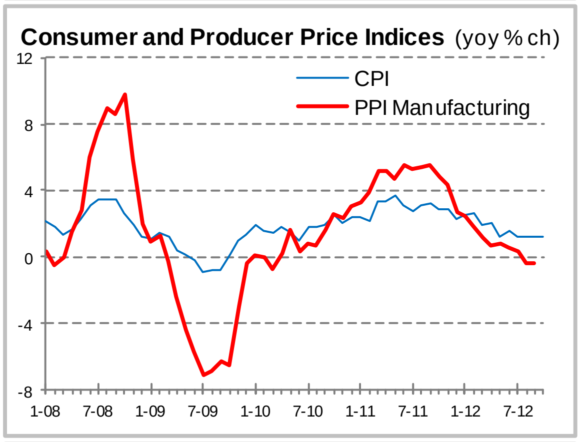
CANADA

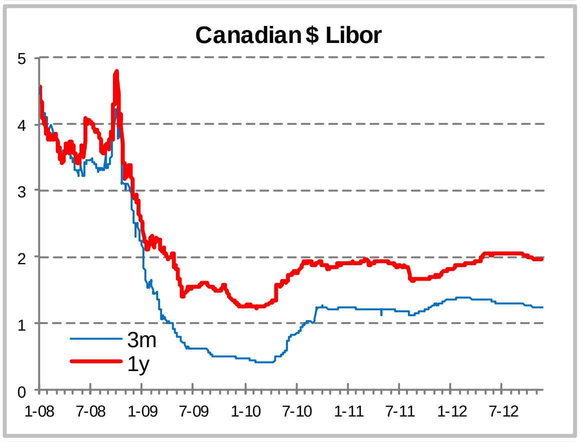


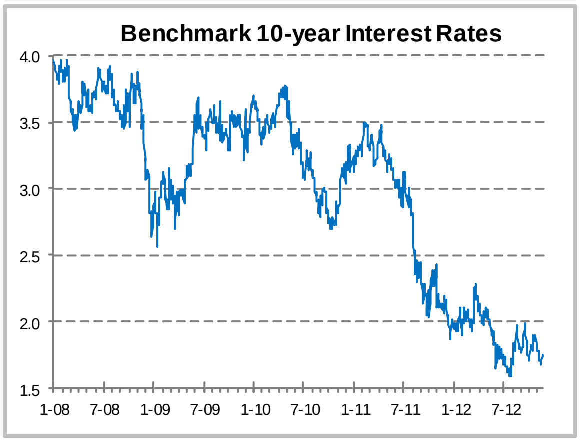


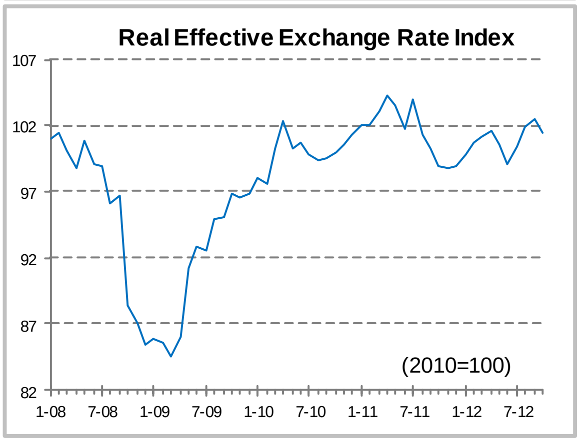












Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-3.1	1.7	1.7	0.1 Q3
Industrial Production	-12.8	5.0	1.9	-2.7 Sep**
Construction Investment	-7.7	-3.5	2.0	0.8 Q3
Consumer Prices - Harmonised Index***	0.1	1.7	2.3	2.1 Oct
Producer Prices - Manufactured Goods***	-7.3	3.3	5.9	2.5 Sep
Hourly Earnings - Manufacturing (*ouvriers*)***	2.1	1.8	2.4	2.3 Q3
Standardised Unemployment Rate (%)	9.5	9.8	9.7	10.8 Sep
Current Account Balance (€bn)	-25.1	-30.2	-38.9	-40.3 Q2°
as a percentage of GDP	-1.3	-1.6	-1.9	-2.0
Real Effective Exchange Rate Index§	104.1	100.0	99.1	95.8 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (Euribor 3m)	1.22	0.81	1.39	0.21 Oct
Long Term Interest Rate pa (benchmark 10y)	3.65	3.12	3.32	2.19 Oct
Stock Exchange (CAC) Index (% ch)*	-23.1	12.1	-4.3	9.6 20/11/12**

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

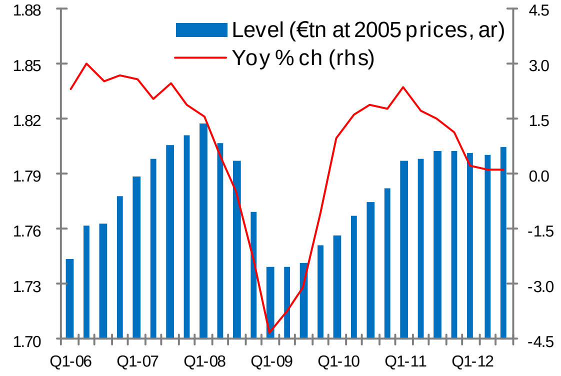
Sources: OECD, Banque de France, INSEE, BIS, daily press

***Key message**: The French economy has held up relatively well in recent months but is set to feel the pinch of high and rising unemployment and, most importantly of a tightening fiscal stance.*

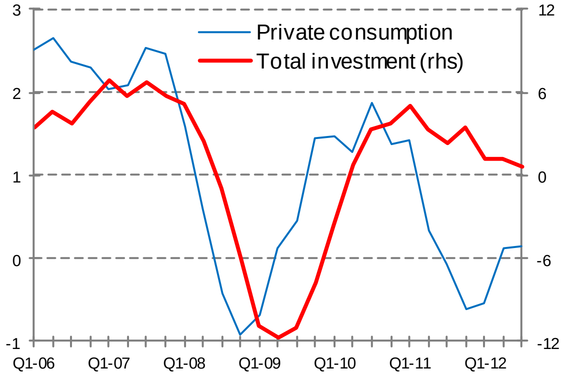
- The French economy performed better than feared in Q3 12 and expanded by 0.2% qoq after stagnating in Q1 and falling marginally in Q2. Private and government consumption were the main drivers, while investment fell modestly. A drop in inventory levels drove imports down, which, coupled with improving export, resulted in a positive contribution to growth from the external sector.
- On the supply side, output growth was sustained by a slight upturn in manufacturing production (up by 1% qoq). However, the latest indicators point to deteriorating conditions towards the end of Q3 and the beginning of Q4. Industrial production contracted sharply in September (-2.7% mom), confidence indicators are falling and the PMI index for manufacturing remains in negative territory.
- Private consumption has remained relatively resilient so far also thanks to still favourable compensations and social benefits development. Unemployment, however, sits at record highs and is expected to rise further which is reflected in plummeting household confidence levels. This will likely translate in weaker consumption ahead.
- In addition, the fiscal stance will be significantly tighter next year and will thus weigh on economic activity. The 2013 draft Budget introduced measures (including higher taxes on wealthier people and on large companies accompanied by a freeze on central government spending) worth €30bn in an effort to reduce the fiscal deficit to GDP ratio from an estimated 4.5% this year to 3% the next one.
- Moody's has just downgraded France's sovereign debt from triple A because of its "multiple structural challenges, including its gradual, sustained loss of competitiveness and the long-standing rigidities of its labour, goods and service markets" and on concerns on the country's economic outlook. In fact, the government has recently made an important step in the recognition that a competitiveness issue exists as it has unveiled a plan to introduce €20bn in tax breaks for companies from 2014 (this responding in part to businesses pressures)

FRANCE

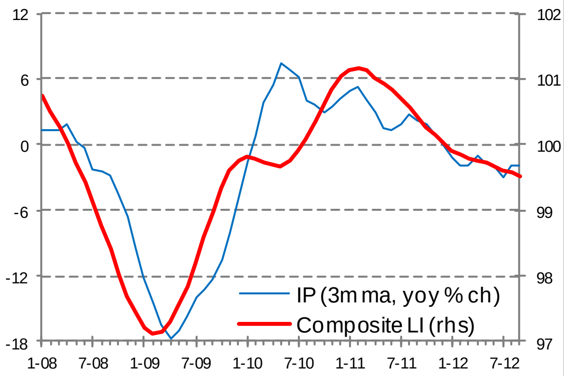
Real GDP (sa)



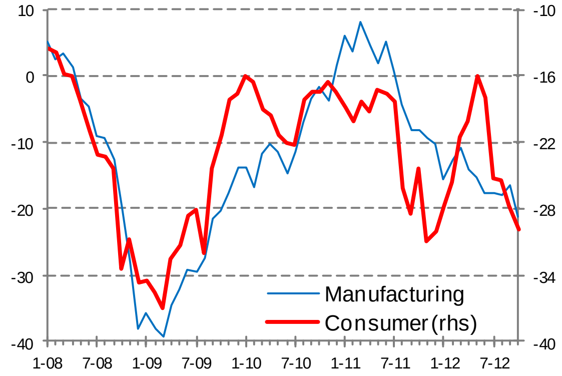
Consumption and Investment (yoy % ch, sa)



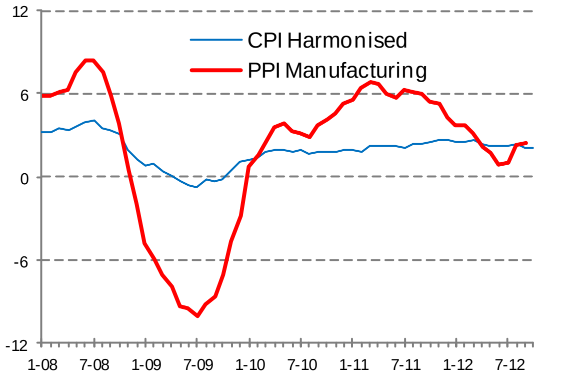
Industrial Production and Leading Indicator



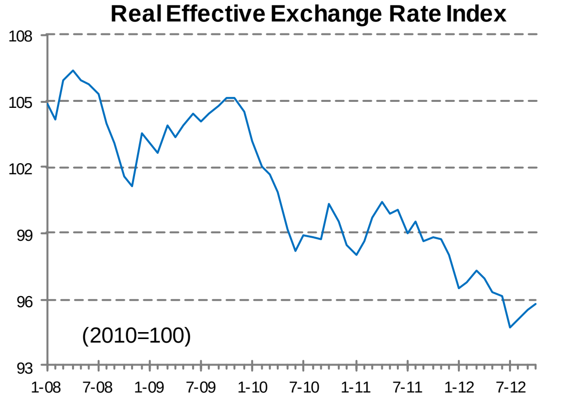
Confidence Indicators (% balance, sa)



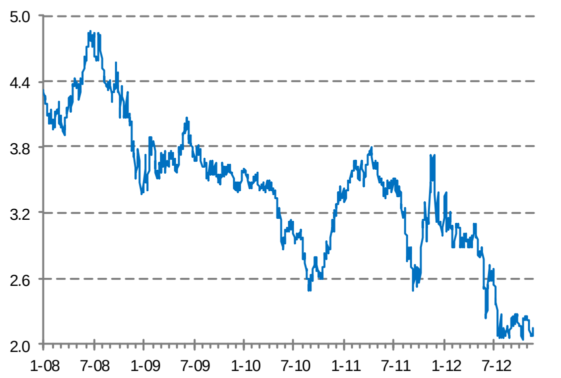
Consumer and Producer Price Indices (yoy % ch)



Real Effective Exchange Rate Index



Benchmark 10-year Interest Rates



Stock Market Index (CAC40, '000)

Sources: OECD, INSEE, BIS, daily press

BELGIUM

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-2.7	2.4	1.8	-0.3 Q3
Industrial Production	-11.8	8.3	4.2	2.6 Aug**
Construction (GVA)	-1.9	0.5	4.8	0.9 Q2
Consumer Prices – Harmonised Index***	0.0	2.3	3.5	2.6 Oct
Producer Prices***	-5.4	6.9	9.0	4.0 Sep
Hourly Earnings-Industry***	2.6	1.1	1.3	1.7 Q3
Standardised Unemployment Rate (%)	7.9	8.3	7.2	7.4 Sep
Current Account Balance (bn €)	-4.8	6.8	-5.2	-5.6 Q2°
as a percentage of GDP	-1.4	1.9	-1.4	-1.5
Real Effective Exchange Rate Index§	103.2	100.0	100.8	98.8 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (Euribor 3m)	1.22	0.81	1.39	0.21 Oct
Long Term Interest Rate pa (benchmark 10y)	3.90	3.46	4.23	2.44 Oct
Stock Exchange (BEL20) Index (% ch)*	-31.8	19.7	-5.5	13.6 20/11/12**

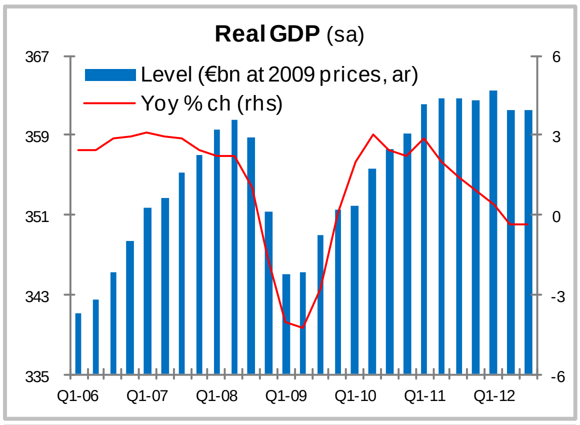
* Average over year; ** % change on 30/12/11

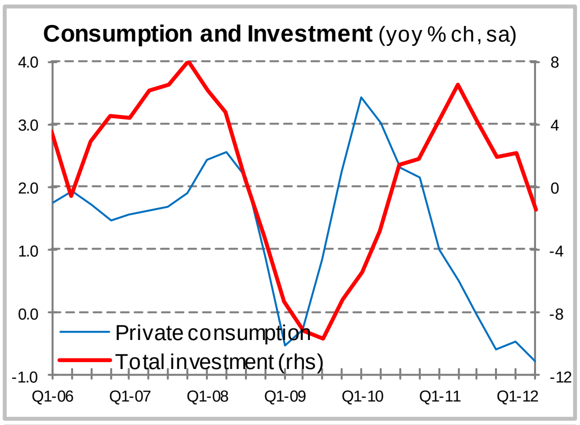
Sources: OECD, Institut National de Statistique, Banque National de Belgique, BIS, daily press

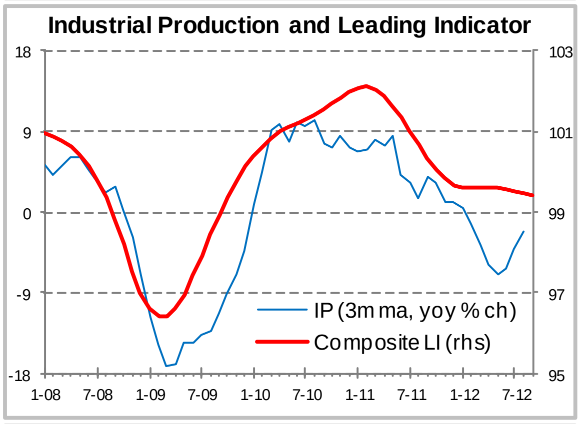
***Key message**: The Belgian economy is particularly exposed to deteriorated global trade conditions. The economy is stagnating with a negative outlook ahead also related to a significant fiscal tightening.*

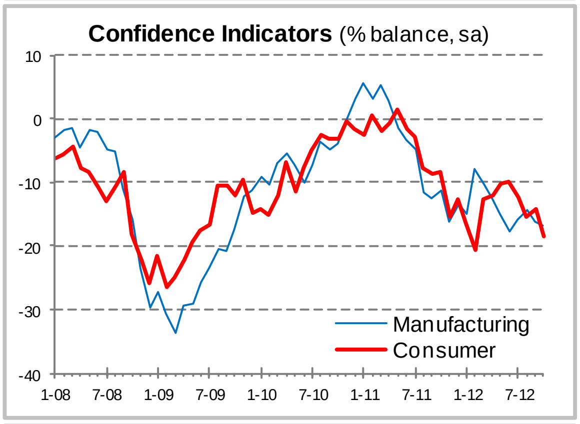
- The Belgian economy stagnated in Q3 12 according to flash estimates. This is, however, an improvement from the previous quarter sharp drop (-0.5% qoq). No details are yet available but weakness is likely to be spread across the board while prospects remain grim.
- As a matter of fact, the National Bank of Belgium's leading indicator has kept declining throughout recent months falling to a three-year low in October. This, coupled with the ongoing softening in global conditions, is heralding a likely negative GDP performance in Q4 12. Low confidence levels, muted credit conditions, unfavourable external developments and a tight fiscal stance are at the roots of the economic slackness.
- Conditions in the labour market continue to be uncertain. For instance, Ford Motor Company has recently announced the closure of its plant in the Limburg province (the biggest car plant in Belgium) with the direct loss of 4,300 jobs and of further 5,000 workers at risk in related suppliers' factories.
- The government has announced the 2013 draft budget which will include further tax reforms and public expenditure cuts on top of a series of measures announced throughout 2012 (including, among other ones, raising the effective retirement age from 58 to 61 years). The target of bringing the deficit to GDP ratio to 2.8% this year and to 2.2% in 2013 appears to most analysts over-ambitious as slower growth than that anticipated by the government will cause some fiscal slippage. Given the huge public debt level (now around 100% of GDP) and the ongoing euro area sovereign crisis, further austerity measures cannot be excluded next year as the longer term sustainability must be pursued.
- Inflation remains relatively high mainly due to pressures related to the wage indexation system and to the high sensitivity of the Belgian price system to increases in energy prices (whose impact tend to be greater than on average in the euro zone).

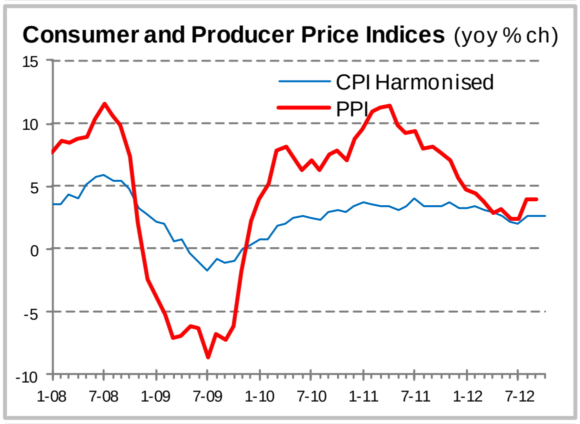
BELGIUM

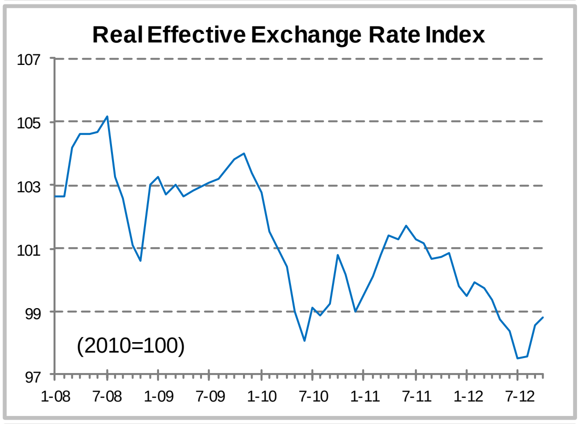


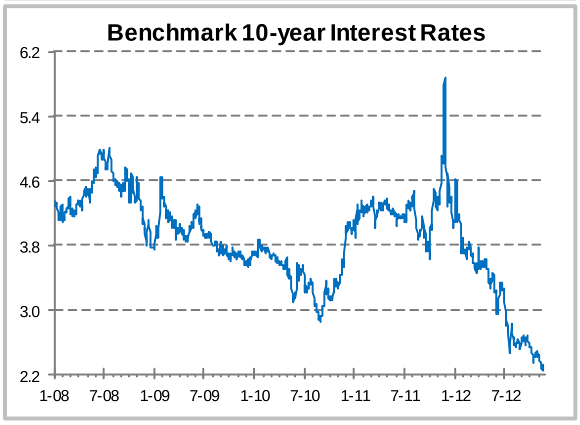


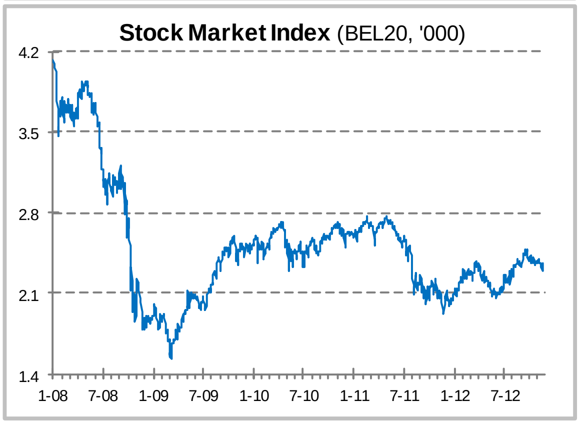












Sources: OECD, European Commission, Belgostat, BIS, daily press

ITALY

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-5.5	1.8	0.6	-2.4 Q3
Industrial Production	-18.8	7.0	-0.7	-1.5 Sep**
Construction Investment	-8.8	-4.9	-2.1	-6.3 Q2
Consumer Prices - Harmonised Index***	0.8	1.6	2.9	2.8 Oct
Producer Prices***	-4.7	3.0	4.8	2.6 Sep
Hourly Rates - Industry***	3.2	2.8	2.5	2.4 Sep
Standardised Unemployment Rate (%)	7.8	8.4	8.4	10.8 Sep
Current Account Balance (€bn)	-30.1	-54.7	-50.9	-29.9 Q2°
as a percentage of GDP	-2.0	-3.5	-3.2	-1.9
Real Effective Exchange Rate Index§	104.5	100.0	99.8	97.9 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; °latest 12 months up to Q2 included; § 2010=100

Financial Indicators				
Short Term Interest Rate pa (Euribor 3m)	1.22	0.81	1.39	0.21 Oct
Long Term Interest Rate pa (benchmark 10y)	4.31	4.04	5.42	4.95 Oct
Stock Exchange (MIBTEL) Index (% ch)*	-29.6	5.0	-8.8	3.0 20/11/12**

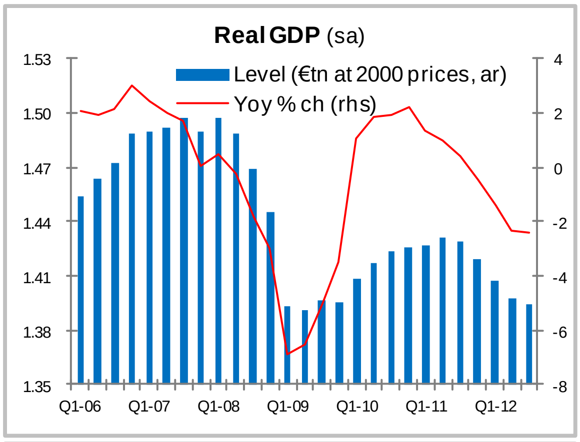
* Average over year; ** % change on 30/12/11

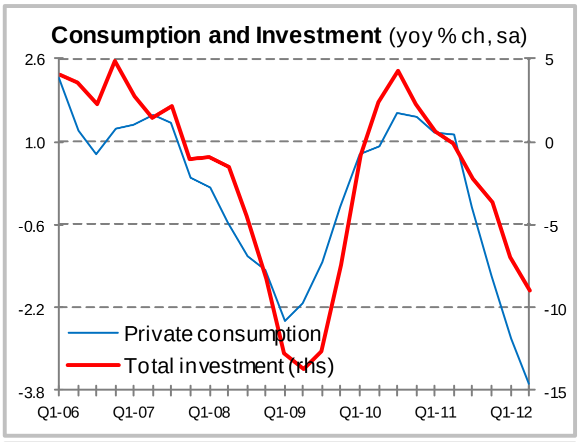
Sources: OECD, ISTAT, BIS, Banca d'Italia, daily press

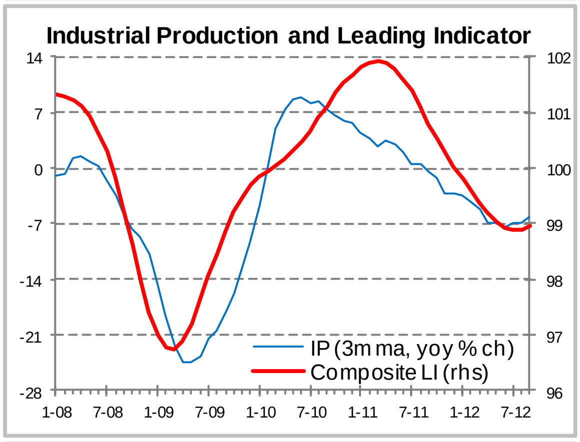
***Key message**: Economic conditions in Italy are still unfavourable. Domestic demand is being hit by a harsh fiscal stance and tight credit conditions. Some recovery in export has been recorded, but given weak global prospects, external demand cannot be trusted on for a sustained rebound.*

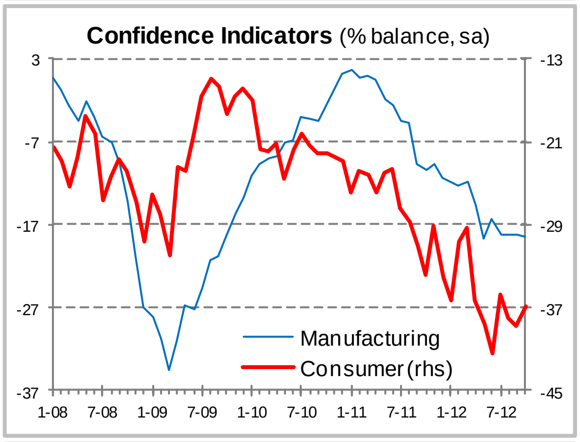
- Flash estimates for GDP in Q3 12 surprised on the upside as the contraction was smaller than expected (-0.2% qoq). Disaggregated data are not yet available but the National Statistics Institute noted that both agriculture and services fell while industrial value added improved slightly. GDP may have benefited in Q3 from falling imports and from an unusual spike in industrial production last August.
- However, the relapse in industrial activity in September signals a likely negative entry to Q4 12, while business surveys still fail to signal a clear turning point in industrial activity. Overall, high frequency data point to a slowing rate of decline.
- Credit conditions remain tight but also demand for credit continues to contract.
- Some good news comes from trade data as export flows are trending upwards being now steadily above import values since last April, the latter having fallen sharply between May 2011 and early 2012 and now showing signs of stabilisation. This has resulted in a significant correction in the current account deficit which had grown worryingly in recent years despite the economic weakness.
- Inflation eased sensibly in October although this was mainly due to the favourable statistical base effect as the impact of the September 2011 VAT hike waned.
- The government is currently discussing the 2013 Budget. Widespread spending cuts and an increase of 1% to the standard VAT rate (now at 21%) are still in the draft, while some recalibration in personal taxation have been scrapped. The government is coming under intense pressure to avoid further austerity measures as these are viewed as detrimental to economic recovery.

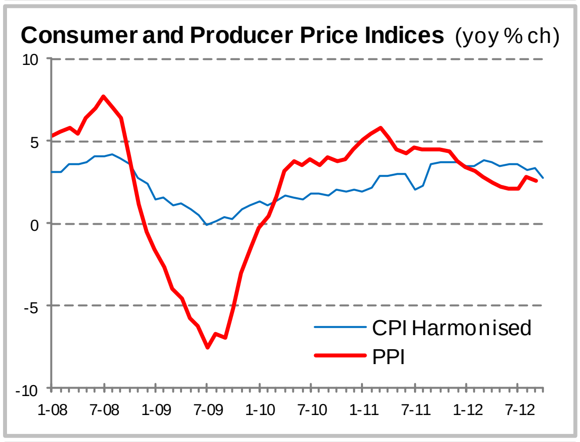
ITALY

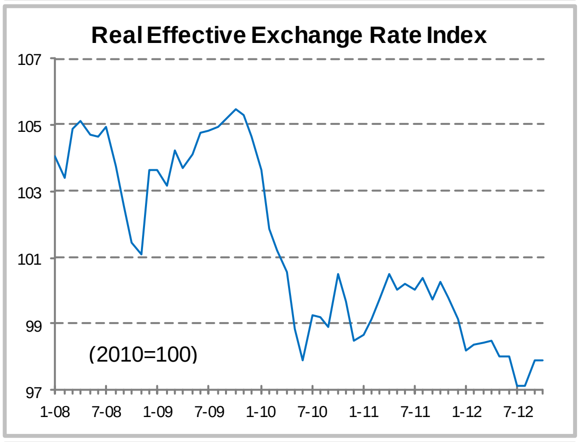


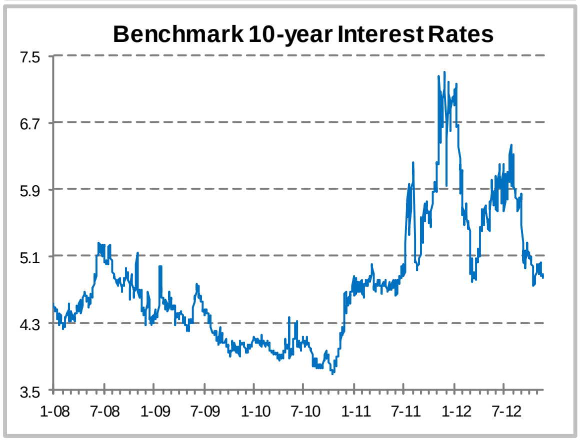


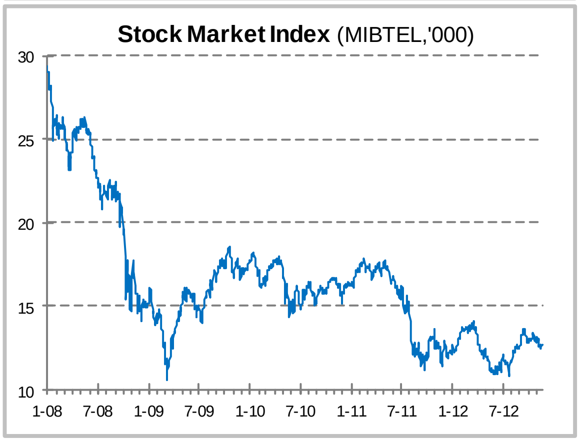












Sources: OECD, ISTAT, BIS, daily press

SPAIN

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-3.7	-0.1	0.7	-1.6 Q3
Industrial Production	-15.8	0.8	-1.5	-2.8 Sep**
Construction Investment	-16.6	-9.8	-9.0	-12.3 Q3
Consumer Prices - Harmonised Index***	-0.2	2.0	3.1	3.5 Oct
Producer Prices - Manufacturing***	-3.4	3.2	6.9	3.5 Oct
Hourly Earnings***	5.0	1.4	2.7	3.1 Q2
Standardised Unemployment Rate (%)	18.0	20.1	21.7	25.8 Sep
Current Account Balance (€bn)	-50.5	-47.4	-37.5	-32.2 Q2°
as a percentage of GDP	-4.8	-4.5	-3.5	-3.0
Real Effective Exchange Rate Index§	103.3	100.0	100.3	99.3 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (Euribor 3m)	1.22	0.81	1.39	0.21 Oct
Long Term Interest Rate pa (benchmark 10y)	3.97	4.25	5.44	5.64 Oct
Stock Exchange (MSE) Index (% ch)*	-18.3	3.1	-9.8	-8.7 20/11/12**

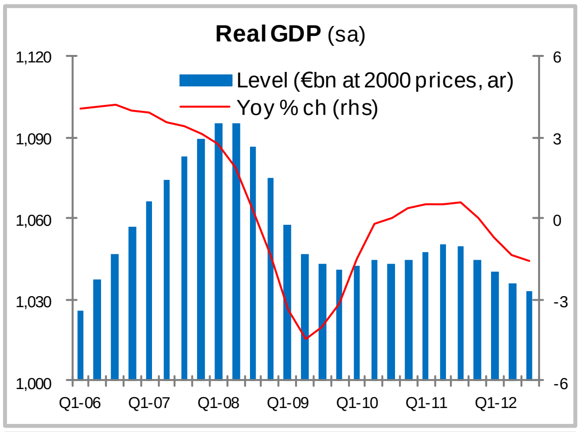
* Average over year; ** % change on 30/12/11

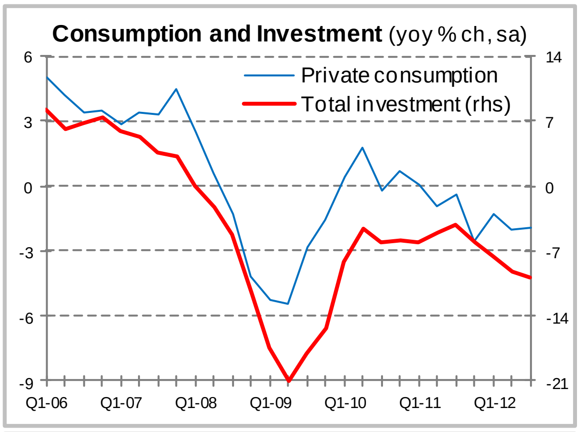
Sources: OECD, INE, BIS, daily press

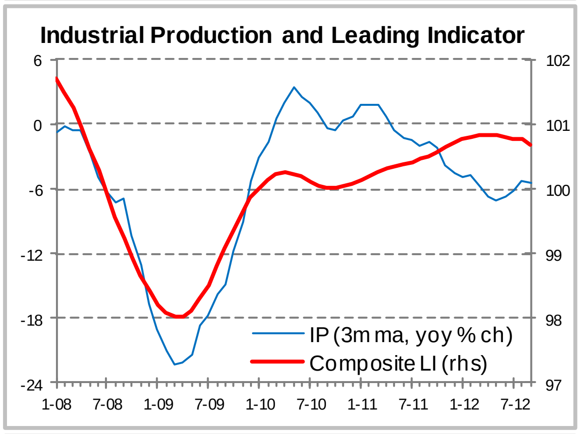
Key message: *Spain is facing a nasty recession coupled with harsh fiscal austerity. Given a bleak eurozone outlook it is difficult to foresee an improvement in the next few months. The country is still exposed to international markets' speculation and to domestic political and social instability.*

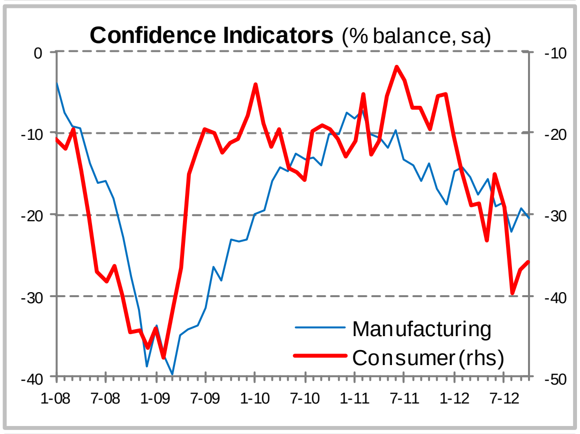
- GDP contracted again in Q3 12, according to recently released national accounts data, albeit the pace of contraction was somewhat surprisingly low. As a matter of fact, GDP fell by 0.3% qoq but depressionary conditions across Spain were disguised by a good net export performance. In addition, a slower rate of decline in consumer spending and an increase in investment in machinery and equipment was likely due to spending ahead of the 3% VAT hike starting September, 1st. A positive note comes from the export performance which was up 4.8% qoq in Q3 12 (3.7% yoy) thanks to both positive merchandise and service (i.e. tourist) performances.
- Residential investment continues to slide as the sector is still weighed down by weak demand and a huge stock of unsold dwellings. Public works are also suffering from cuts in public spending. Other investment activity remains constrained by poor business climate and an unfavourable economic outlook.
- Overall, conditions in Spain are dismal and prospects are not benign: unemployment is painfully high, industrial production, real incomes, and lending are dwindling. The outlook for domestic demand in H2 12 following the VAT hike is unfavourable. In addition, the government has committed to cut the public sector's deficit from 8.9% of GDP in 2011 to below 3% in 2014, this meaning an even more aggressive fiscal tightening.
- Inflation is accelerating hitting a one-year-and-a-half high of 3.5% in October. This is the result of the VAT increase from 18% to 21% from September, 1st although overall economic fundamentals point to very limited price pressures as record high unemployment keeps wage increases down.
- There is widespread expectation that Spain will apply for additional financing from Eurozone institutions (via the ESM, European Stability Mechanism), on top of the financial support to bail out the banking system granted in July by the EU (nominally worth €100bn), given the country's difficult financial position. In fact, Spain has so far been able to refinance its debt without major difficulties but the issue remains still open.

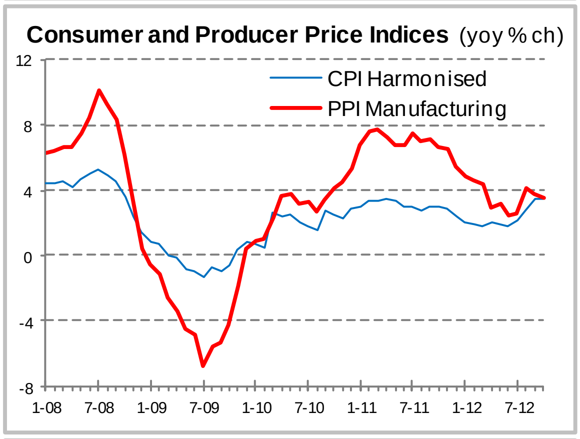
SPAIN

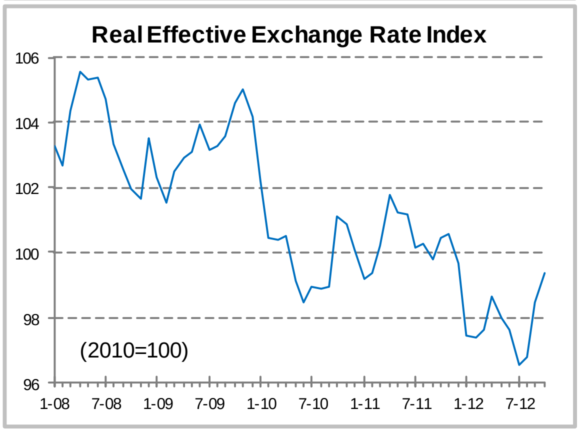


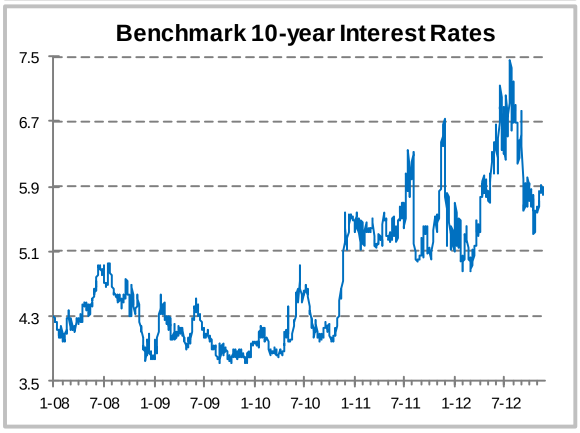


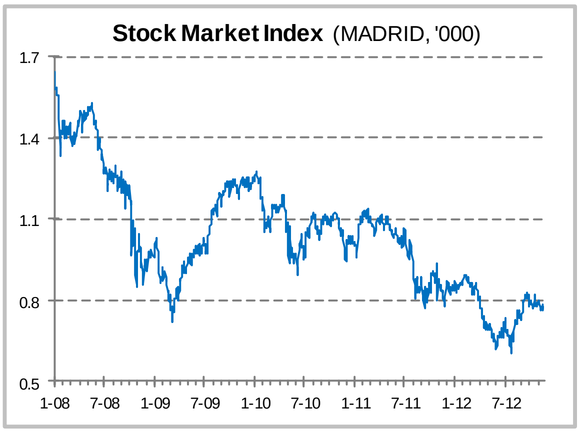












Sources: OECD, INE, BIS, daily press

GREECE

Real Indicators*	2009	2010	2011	Latest
GDP***	-3.1	-4.9	-7.1	-7.2 Q3
Industrial Production	-9.2	-6.6	-8.8	-4.4 Sep**
Construction Investment***	-10.0	-12.2	-21.4	-17.7 Q2
Consumer Prices – Harmonised Index***	1.3	4.7	3.1	0.9 Oct
Producer Prices – Manufacturing***	-6.8	7.4	8.6	4.5 Sep
Standardised Unemployment Rate (%)	9.5	12.6	17.7	23.6 Q2
Current Account Balance (€bn) ***	-25.8	-23.0	-21.1	-15.2 Q2°
as a percentage of GDP	-11.1	-10.1	-9.8	-7.3
Real Effective Exchange Rate Index§	100.8	100.0	100.5	98.0 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators				
Short Term Interest Rate pa (Euribor 3m)	1.22	0.81	1.39	0.21 Oct
Long Term Interest Rate pa (benchmark 10y)	5.17	9.09	15.75	17.96 Oct
Stock Exchange (ASE) Index (% ch)*	-36.1	-21.6	-31.9	20.7 20/11/12**

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

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

Key message*: The Greek economy is in dire straits and it is difficult to see a way out. Austerity measures are strangling the country, debt is unsustainable and reforms appear to be insufficient. The powers in charge, be it national (the government, the parliament) or supernational (the Troika), appear so far unable to tackle todays' Greece's tragedy.*

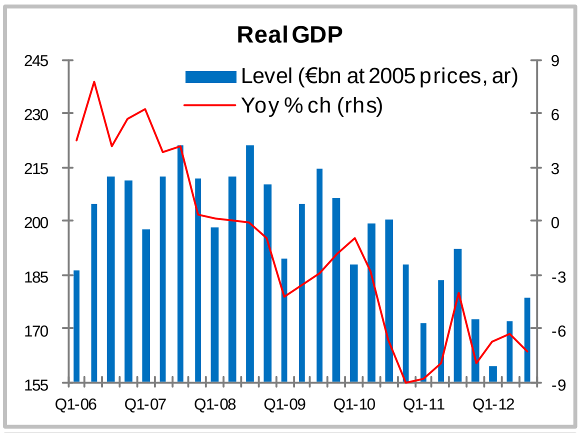
- The Greek recession is intensifying again. Flash GDP estimates for Q3 12 show that GDP fell by a dismal 7.2% yoy following -6.3% in Q2, domestic demand being the likely drag (disaggregated data are not yet available). The economy is contracting uninterruptedly since Q3 08 meaning that GDP is now about 20% lower than at the outburst of the crisis. Both firms and households are under intense pressure stemming from significant tight fiscal policy, skyrocketing unemployment, challenging credit conditions and dipping confidence levels related to elevated concerns about the economic outlook.

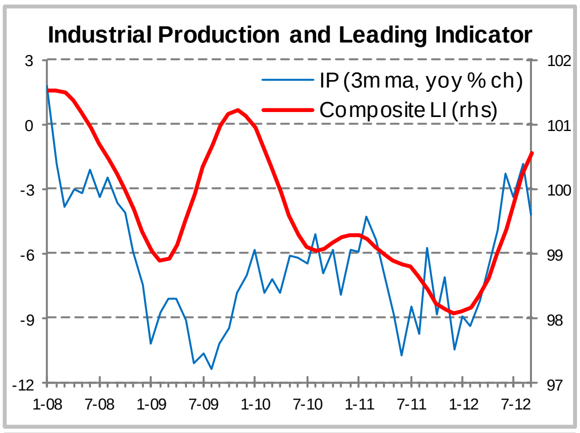
- The government has recently passed the 2013 budget, amid violent street protests, which will introduce further austerity measures worth about €9.2bn (around 5% of GDP) including cuts in public sector wages and pensions, an increase in the retirement age from 65 to 67 years, lower healthcare spending, and higher taxes (particularly taxes on heating fuel and bank deposits). Discontent and unrest are rising, which raises questions about the social sustainability of the current austerity stance.

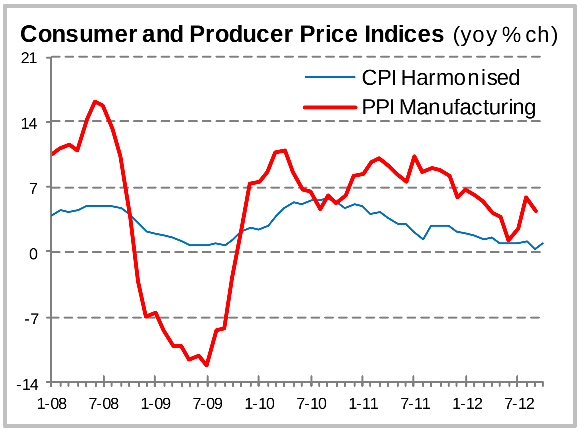
- The November, 13th Eurogroup (i.e. Eurozone finance ministers) meeting agreed to give Greece more time to meet its fiscal targets albeit not giving the green light to releasing the next bailout fund tranche worth €44bn. Together with the appreciation for the budget proposal, further commitment to prior actions has been recommended in order to secure the release of the new tranche of funds which should be decided soon and has been recently delayed.

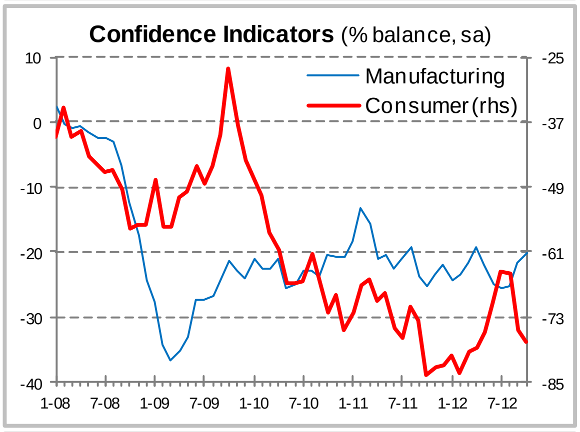
- There remain serious disagreements among the members of the Troika (EU, IMF, ECB) on how to deal with Greece's debt. The EU appears to be ready to accept a more flexible approach and "buy more time", while the IMF is more concerned about longer term sustainability and looks forward to a more definitive solution. In fact, Greece is currently engulfed in a vicious circle with a plummeting economy and an unsustainable debt position. A more drastic restructuring of this debt would imply considerable losses for Germany, a not viable solution during an election year in that country. The risk of a government collapse and/or of a Greece default (with a consequent Grexit, that is exit from the euro) is thus still non-negligible.

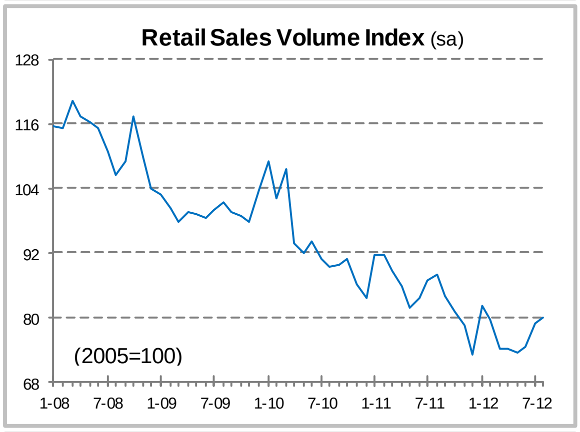
GREECE

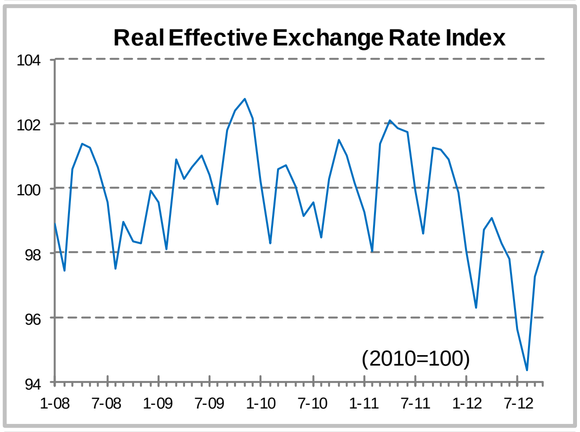


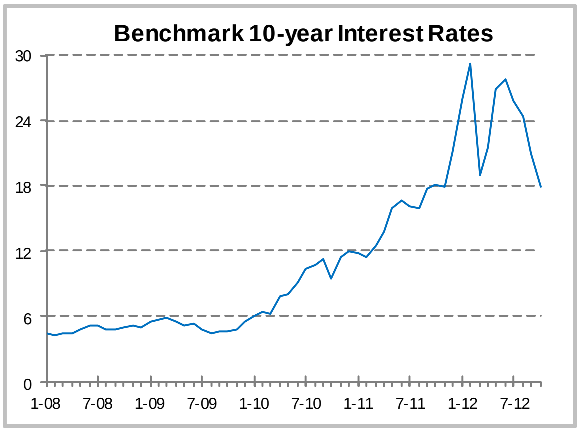


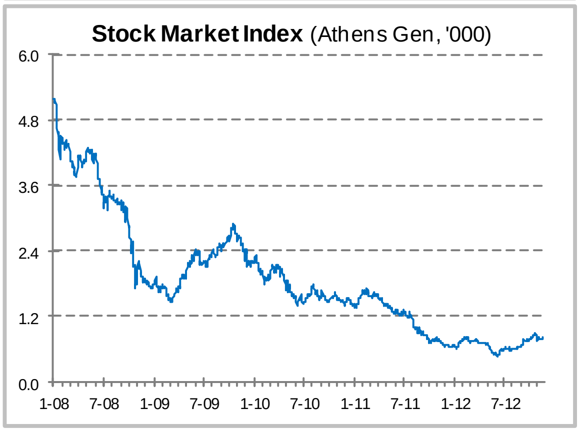












Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2009	2010	2011	Latest
GDP (wda)	-5.5	0.4	1.7	0.5 Q3
Gross Fixed Capital Investment (wda)	-17.6	-18.3	-9.7	1.0 Q3
Industrial Production – Manufacturing	-22.4	3.9	5.2	-5.1 Sep
Consumer Prices – Harmonised Index	2.5	3.0	3.4	3.0 Oct
Producer Prices – Manufacturing	-9.1	8.4	10.0	5.8 Sep
Unemployment Rate (%)	6.8	10.2	11.2	12.4 Sep
Current Account Balance (US$bn)	-4.3	-0.8	0.2	-0.9 Q3°
as a percentage of GDP	-8.9	-1.5	0.3	-1.5
Real Effective Exchange Rate Index§	103.6	100.0	101.7	101.0 Oct

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

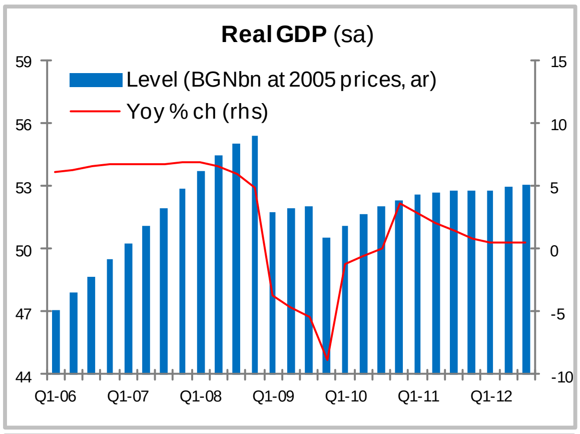
Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (sofibor o/n)	2.2	0.4	0.5	0.0 Sep
Short Term Interest Rate pa (sofibor 3m)	5.7	4.1	3.8	1.6 Sep
Long Term Interest Rate pa (benchmark 10y)	7.2	6.0	5.4	3.4 Oct

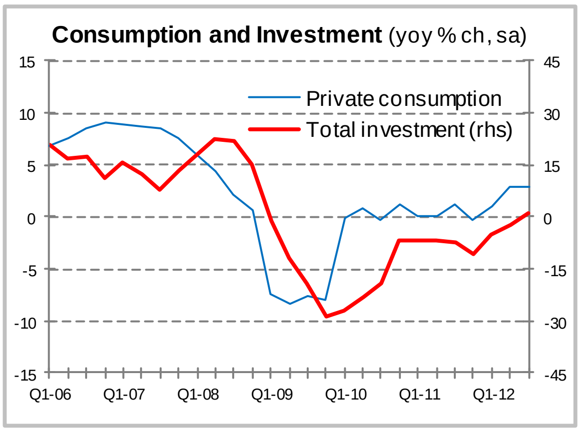
Sources: National Statistics Institute, BIS, National Bank of Bulgaria, Eurostat

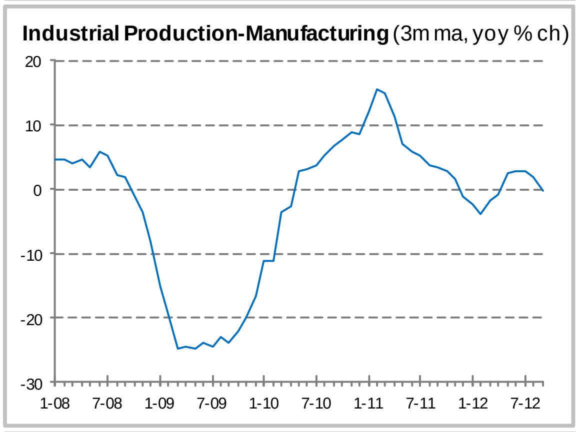
***Key message**: Following a relatively good performance in H1 12 if compared with that of the euro area, the Bulgarian economy is weakening in the second part of this year suffering from external headwinds, a high level of unemployment, still slow credit growth and the need to maintain a tight fiscal stance.*

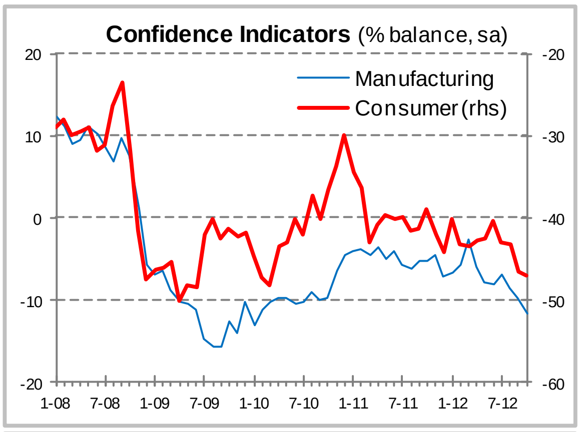
- Preliminary national accounts data show that the economy slowed down in Q3 after a modest expansion in Q2 12 (+0.1 and +0.3% qoq, respectively). Despite faltering European growth Bulgaria has outperformed the euro area this year as domestic demand has shown signs of resilience.
- Sentiment is, however, deteriorating among both businesses (in all sectors: industry, construction, retail, and services) and households. Industrial production, which had held up in H1 12, has started to fall on a monthly basis, pinpointing the recession in the main Bulgarian export markets. Notably, within the construction sector, the civil-engineering sub-sector continues to expand robustly, albeit decelerating, thanks to improved absorption of EU funds for infrastructure projects, while non residential and residential activity are falling significantly.
- As for households, high unemployment and worries related to inflation are denting confidence levels resulting in a weakening in retail sales. Looking ahead the major growth driver of this year, private consumption, is set to wane, which, coupled with bleak export prospect will result in a persistently low economic growth in the months ahead.
- The food price boost last Summer due to relatively poor harvest in 2012 has had only limited effects on overall inflation (measured by the EU's Harmonised Index of Consumer Price which assigns a lower weight to food items in the consumption basket than it does the national headline index) and is proving temporary.
- The current account is slipping back in negative territory as a result of sluggish merchandise exports and a moderate pace of increase of imports from a larger base. Some improvement has been recorded as for foreign direct investment inflows which have increased although from a very low base.

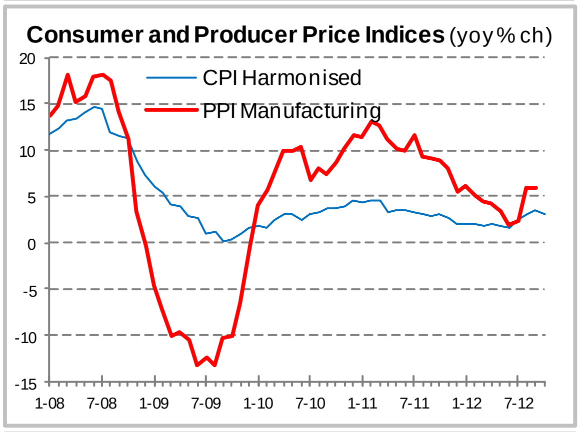
BULGARIA

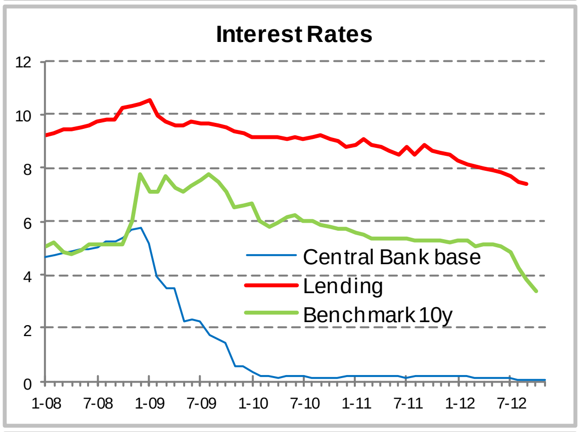


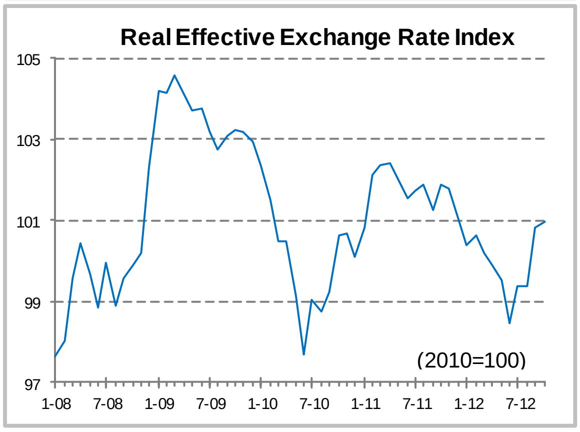


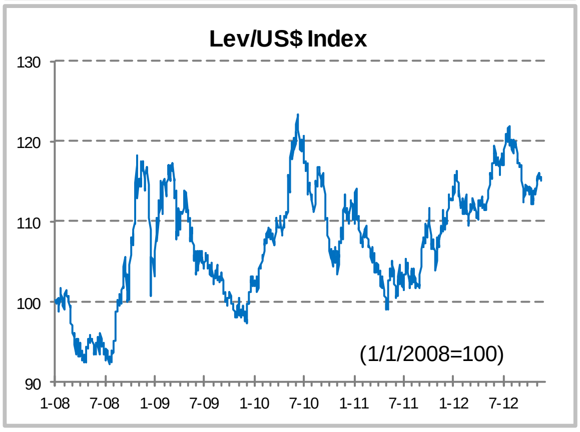












Sources: National Statistics Institute, National Bank of Bulgaria, BIS, daily press

EGYPT

Real Indicators*	2009	2010	2011	Latest
GDP	4.6	5.7	-0.8	3.3 Q2
Construction Production (GVA)	14.2	12.9	-2.9	7.0 Q2
Consumer Prices	11.8	11.3	10.2	6.7 Oct
Producer Prices	-5.6	12.7	14.7	4.5 Sep
Unemployment Rate (%)	9.4	9.0	12.0	12.6 Q2
Current Account Balance (US$bn)	-3.2	-5.6	-7.6	-7.9 Q2°
as a percentage of GDP	-1.6	-2.4	-3.1	-4.2
Real Effective Exchange Rate Index	87.3	96.0	95.4	102.1 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	2009	2010	2011	Latest
Short Term Interest Rate pa (overnight)	9.5	8.3	9.0	9.6 Sep
Short Term Interest Rate pa (91 days T-Bill)	10.3	9.6	11.8	13.4 Sep
Stock Exchange (CASE) Index (% ch)*	-36.3	19.2	-26.5	57.9 20/11/12**

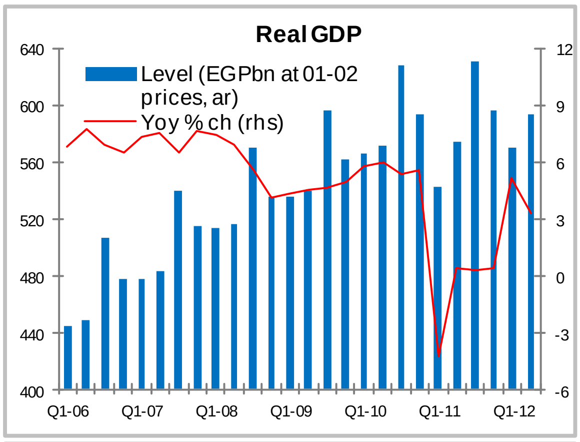
* Average over year; ** % change on 30/12/11

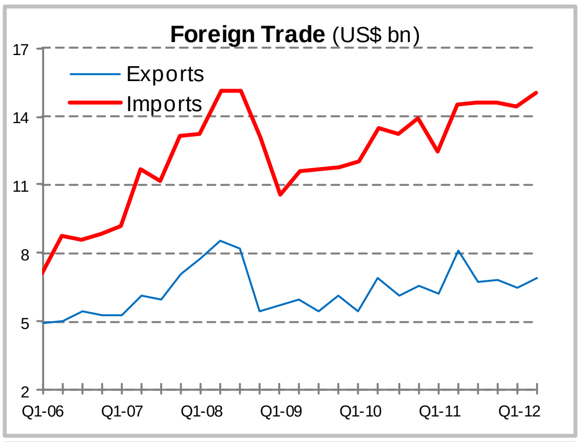
Sources: Central Bank of Egypt, Central Agency for Public Mobilization and Statistics, SESO's calculation, daily press

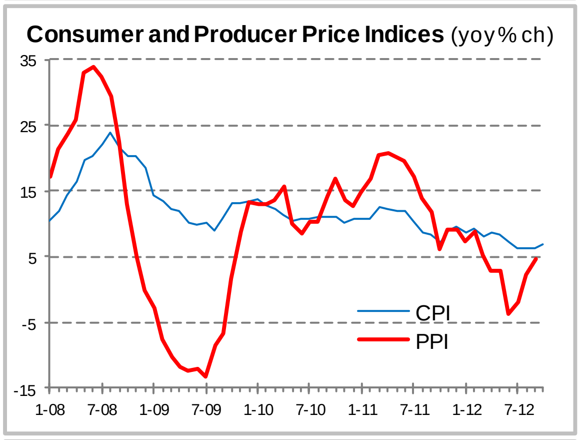
***Key message**: The Egyptian economy remains exposed to a still uncertain political setting and to the explosive situation in the Middle-East. Financial help from the international community is in the pipeline which should prop up confidence and growth in the quarters to come.*

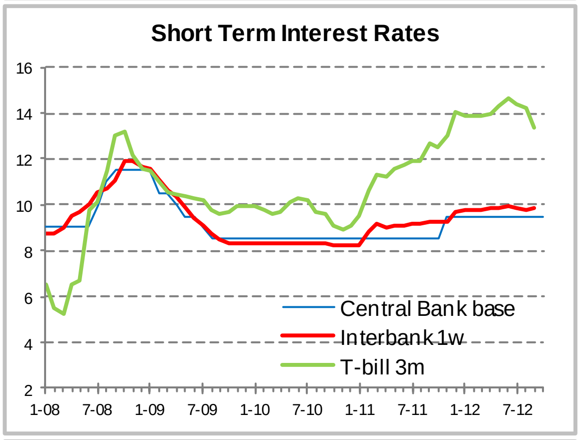
- Political instability persists with the finalisation of the new constitution and parliamentary elections still to be implemented. The absence of a parliament exacerbates legal and macroeconomic uncertainties. Not surprisingly, given the unclear political setting, the economy has been weak in Q2 12, even decelerating from the previous quarter.
- The government has secured a deal with the IMF for a US$4.8bn stand-by-loan. The conditions attached to the funds include tackling structural imbalances on the fiscal and external accounts as well as stimulating economic growth.
- Further financial support to alleviate Egypt's liquidity needs will also come from other international bodies such as the EU and the World Bank conditional to the IMF agreement. According to EGF Hermes the total amount of expected external assistance in 2013 should top almost US$10bn. Meanwhile, recent financial support from Turkey and Qatar in the form of US$1bn deposits at the Central Bank has helped lifting foreign reserves last October which remain, however, at the borderline of safety.
- The cornerstone of fiscal consolidation is the reduction of subsidies for certain goods (such as gasoline), a clearly highly unpopular measure. The government has identified a two-stage strategy whereby in the first phase quantities will be targeted looking at pricing at a later stage.
- The current account balance has continued to widen in Q2 12 as the trade balance kept deteriorating, Suez Canal receipts fell and tourist revenues, albeit improving, remained well below pre-revolution levels. On the positive side, remittances soared to a record high US$5bn while foreign direct investment rebounded to 0.7% of GDP.
- There is speculation that the Central Bank is allowing a gradual depreciation of the pound as an act of complacency versus the IMF (given the Fund deems a fall in the currency desirable). This notwithstanding, inflation has remained tame.

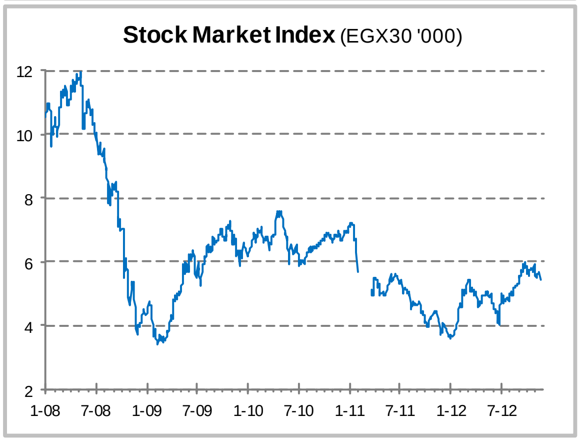
EGYPT

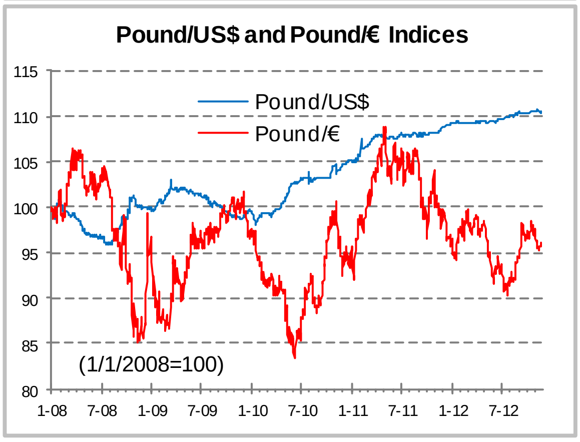












Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2009	2010	2011	Latest
GDP**	4.8	3.6	5.0	2.3 Q2
Construction Production (GVA)**	3.4	2.6	4.9	3.5 Q2
Industrial Production	0.3	2.0	2.4	1.0 Q2
Consumer Prices	1.0	1.0	0.9	1.8 Oct
Producer Prices – Manufacturing	-15.1	6.4	14.8	6.6 Sep
Urban Unemployment Rate (%)	13.8	13.7	13.3	14.0 Q3
Current Account Balance (US$bn)	-5.0	-3.9	-7.3	-8.3 Q2°
as a percentage of GDP	-5.8	-4.6	-7.9	-9.2
Real Effective Exchange Rate Index§	102.2	98.0	95.8	89.0 Sep

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

Financial Indicators				
Short Term Interest Rate pa	3.3	3.3	3.3	3.2 Oct
Stock Exchange (MASI) Index (% ch)*	-20.4	9.2	0.4	-12.3 20/11/12**

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

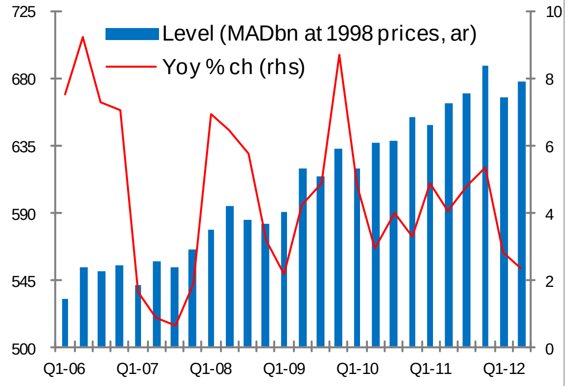
Sources: Direction de la Statistique du Maroc, Haut Commissariat au Plan, IMF, daily press

***Key message**: Morocco is facing an increasingly difficult environment. Not only are both the external and fiscal deficits alarmingly wide, but also growth prospects are shrinking as Europe keeps struggling with recession. In addition, the king has to rein in potential social unrest.*

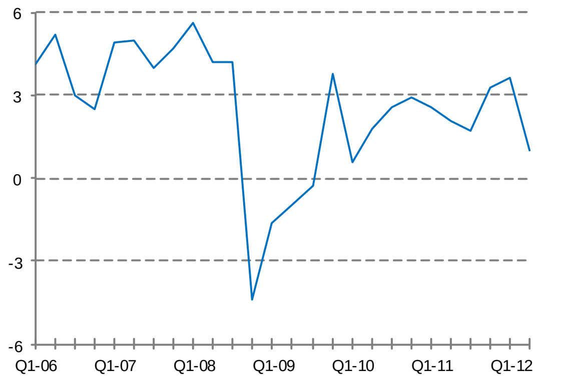
- GDP slowed further in Q2 12 owing to a poor harvest season, with the agriculture sector contracting by almost 10% yoy. The non-agriculture sector, however, remained firm decelerating only marginally from the previous quarter (4.3% yoy in Q2 12 from 4.6% in Q1) mainly driven by the telecommunication and public administration sectors (this meaning an enhanced public sector contribution to sustain growth), where value added grew double-digit, while construction and industrial activity weakened significantly. Private consumption continues to be vulnerable to shifts in agriculture production given that almost 40% of Moroccans are still employed in the primary sector. Industrial output, in particular, has been hit by adverse demand from Europe. Not surprisingly, the urban unemployment rate hit 14% in Q3 12. Also given the recent €1bn investment by Renault in a new car assembly plant in Tanger prospects are, however, expected to improve.
- In the January-September period the current account deficit worsened considerably. Adverse cost developments (mainly regarding energy) and sluggish demand from Europe, coupled with unfavourable phospate prices and falling tourism revenues and remittances, have resulted in a worryingly widening current account deficit, now close to 10% of GDP, on a cumulated four-quarter basis. In the face of these negative external trends, capital inflows have been so far insufficient to forestall a decline in foreign reserves, which, at end-September, were down 18% from end-2011. In this context, a US$6.2bn precautionary liquidity line has been agreed last August with the IMF, while the king is currently touring the Gulf countries to secure financing and investment.
- The fiscal deficit continues to widen and is now expected to hit over 7% relative to GDP in 2012 as the government has kept on spending heavily on investment programmes, on subsidies, and on raising public-sector pay in an effort to contain social discontent. The 2013 draft budget targets reducing the deficit to 4.8% of GDP, but reining in subsidies will be key to fiscal consolidation - and not so easily achievable although some relaxations have been recently introduced for fuel prices and soft wheat (the subsidy bill has been estimated to have jumped to around 6% of GDP in 2011 due to higher oil prices).
- Consumer price inflation is subdued, moderated by extensive government subsidies on basic goods and by the tightly managed float of the currency vis-à-vis the euro.

MOROCCO

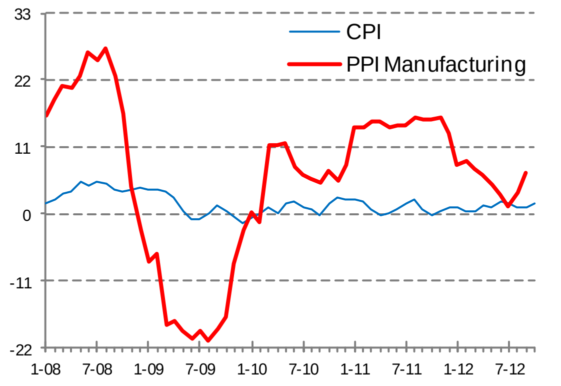
Real GDP (sa)



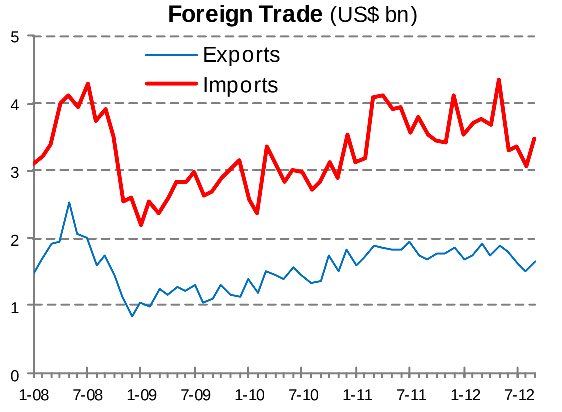
Industrial Production-Manufacturing (yoy % ch)



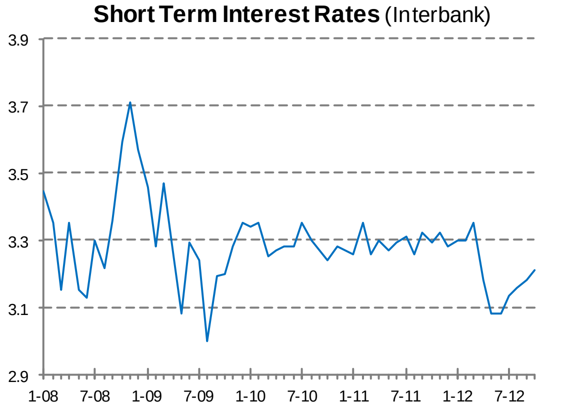
Consumer and Producer Price Indices (yoy % ch)



Foreign Trade (US$ bn)

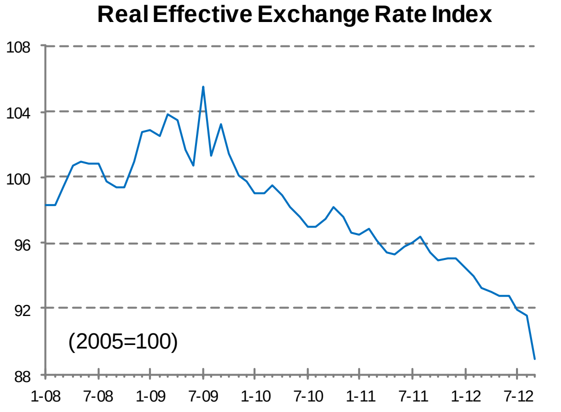


Short Term Interest Rates (Interbank)

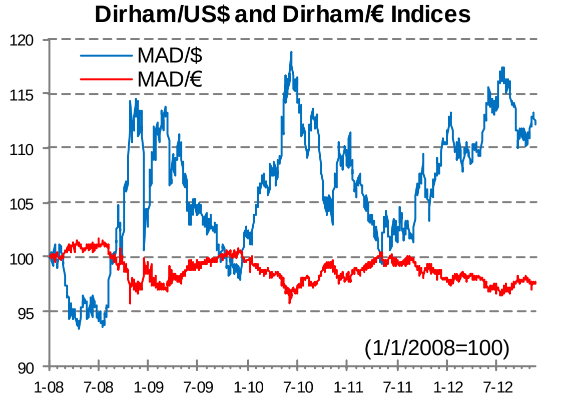


Stock Market Index (MASI '000)

Real Effective Exchange Rate Index



Dirham/US$ and Dirham/€ Indices



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

THAILAND

Real Indicators*	2009	2010	2011	Latest
GDP***	-2.3	7.8	0.1	3.0 Q3
Industrial Production – Manufacturing	-7.2	14.4	-9.5	-4.8 Sep**
Construction Investment***	0.6	6.6	-5.3	10.7 Q3
Consumer Prices***	-0.8	3.3	3.8	3.3 Oct
Producer Prices***	-3.4	9.5	5.5	1.1 Oct
Unemployment Rate (%)***	1.5	1.0	0.7	0.6 Aug
Current Account Balance (US$bn)	21.9	13.2	5.3	-0.8 Q2°
as a percentage of GDP	8.4	4.1	1.5	-0.2
Real Effective Exchange Rate Index§	94.8	100.0	99.0	99.0 Oct

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	1.2	1.3	2.8	2.8 Oct
Stock Exchange Index (Bangkok) (% change)*	-15.4	45.7	21.1	24.5 20/11/12**

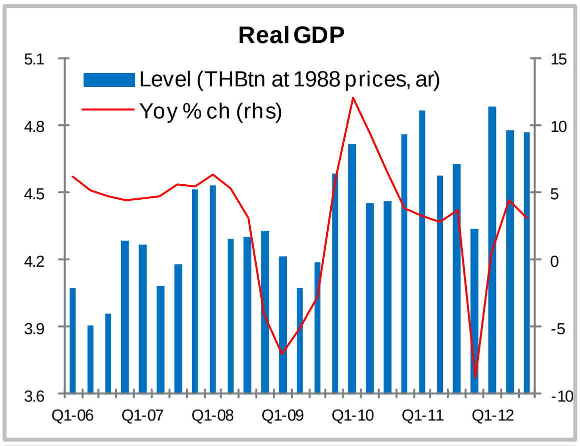
* Average over year; ** % change on 30/12/11

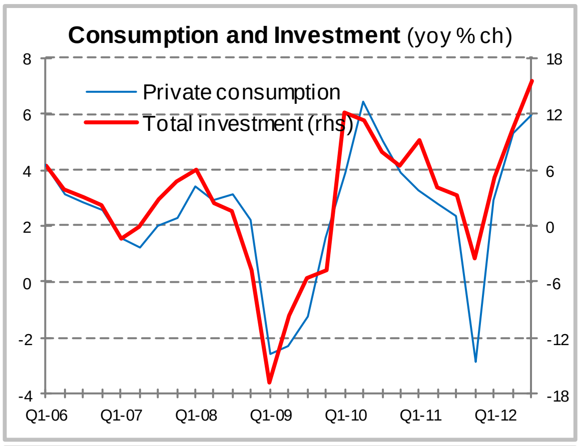
Sources: Bank of Thailand, National Economic and Social Development Board, BIS, daily press

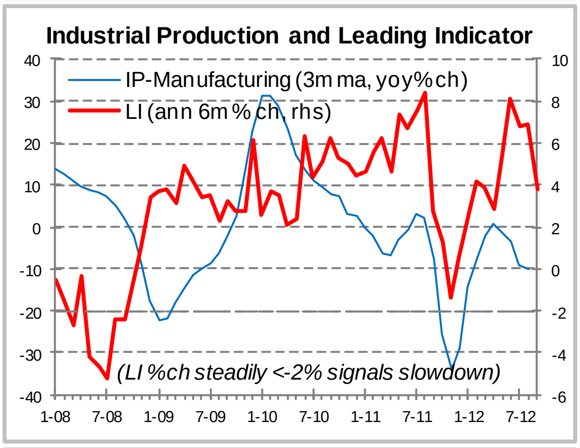
***Key message**: The economy is clearly losing momentum following a relatively strong H1 12 and is exposed to more uncertain developments in the rest of the year - and also looking forward - given adverse external headwinds. While the government maintains a populist approach (primarily focused on rural population) political instability risks loom large.*

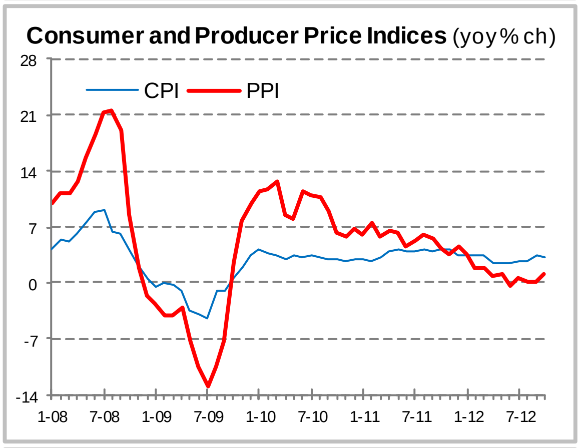
- GDP decelerated significantly in Q3 12 following a still healthy Q2 12 (albeit the latter slowed down from the stellar post-flood pace in Q1). Domestic demand kept rebounding also thanks to a raft of government stimulus measures (including a hike in the minimum wage and tax incentives for first-time buyers of homes and cars) while the contribution from external demand remained somewhat disappointing. Overall GDP figures, however, underestimate the strength of domestic demand given the big drop in inventories which has exacerbated the slowdown.
- Most recent higher frequency data, however, point to a deterioration of the economic momentum particularly in manufacturing where the overall performance is sensibly worsening amid great variation among sub-sectors (the automotive sector is still expanding healthily while the electronic goods one is falling significantly).
- Citing the slowing economic momentum and growing external risks, the Bank of Thailand surprisingly cut the policy rate by 25bp (lowering it to 2.75%) in mid-October as core inflation, at 1.8% in October, remains comfortably within the BoT's target (1-3%).
- In turn, consumer price inflation has somewhat accelerated in September-October on the back of higher energy and transportation costs and, to a lesser extent, food prices (although the impact of higher food commodity prices is decreasing). The strong September increase was also due to one-off increases in excise duties on tobacco and liquor and an unfavourable statistical basis. Looking ahead, inflation risks appear contained.
- The four-quarter cumulated current account balance turned to deficit in Q2 12 for the first time since mid-2006 given the combination of weak exports and strong imports, the latter responding to the need to invest and restock. Trade data for the Summer months show that the downward trend in export has moderated - and finally stopped in September - , but imports have fallen abruptly for two consecutive months in August and September following solid expansion in earlier months.

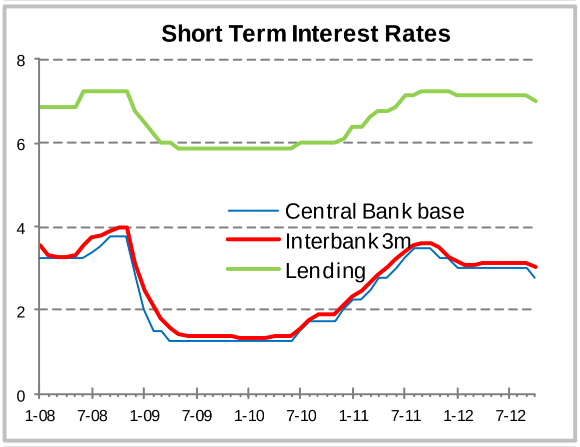
THAILAND

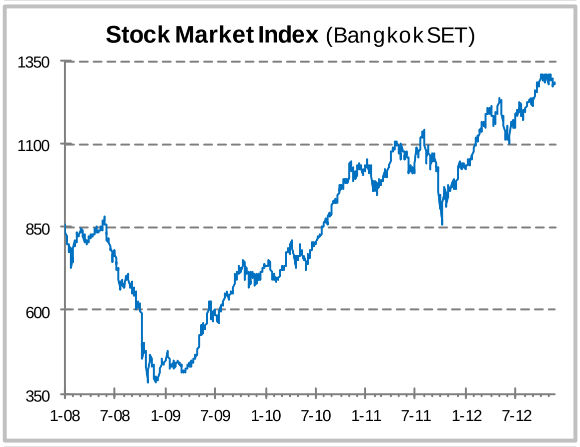


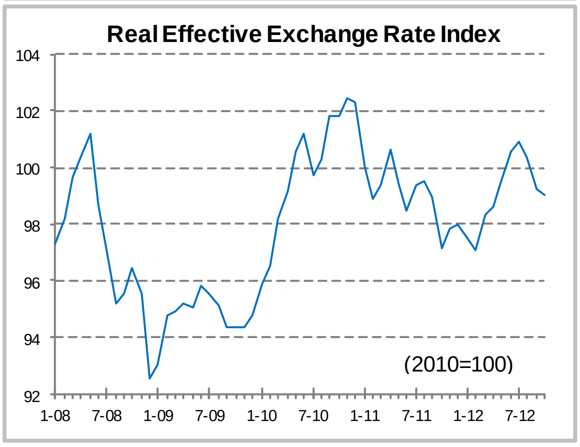


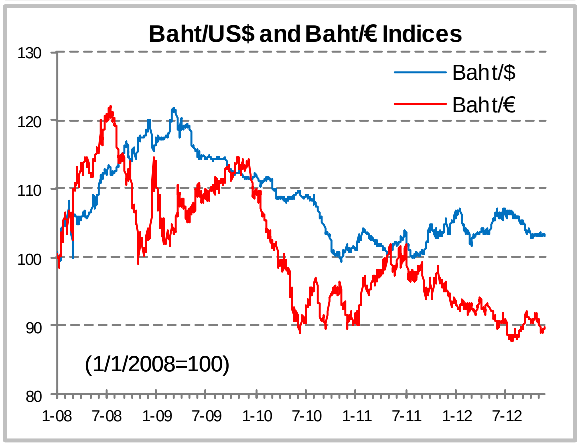












Sources: NESDB, Bank of Thailand, daily press, BIS

INDIA

Real Indicators*	2009	2010	2011	Latest
GDP**	6.4	8.9	7.5	5.5 Q2
Industrial Production – Manufacturing	6.8	11.2	3.3	-1.5 Sep
Construction Production (GVA)**	6.2	7.9	6.3	10.9 Q2
Consumer Prices	10.9	12.0	8.9	9.1 Sep
Wholesale Prices	2.4	9.6	9.5	7.5 Oct
Current Account Balance (US$bn)**	-25.9	-52.2	-62.7	-76.9 Q2°
as a percentage of GDP	-2.1	-3.3	-3.5	-4.4
Real Effective Exchange Rate Index§	89.5	100.0	99.6	94.8 Oct

* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; ** nsa; ° latest 12 months up to Q2 included; § 2010=100

Financial Indicators	2009	2010	2011	Latest
Short Term Interest Rate pa (91-day T-bills)	3.7	5.4	8.0	8.1 Oct
Policy Rate (Repo)	4.9	5.5	7.5	8.0 Nov
Stock Exchange Index (Mumbai) (% ch)*	-5.7	33.5	-2.3	18.6 20/11/12**

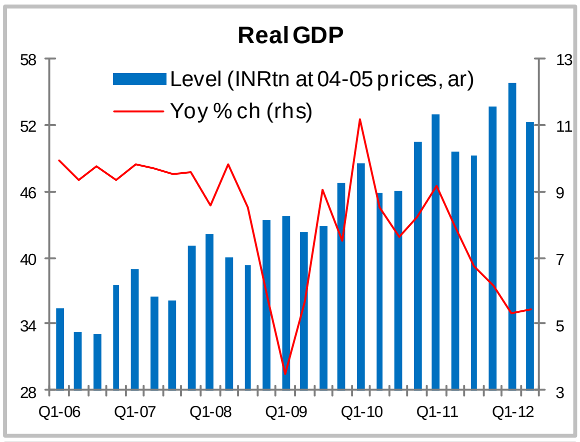
* Average over year; ** % change on 30/12/11

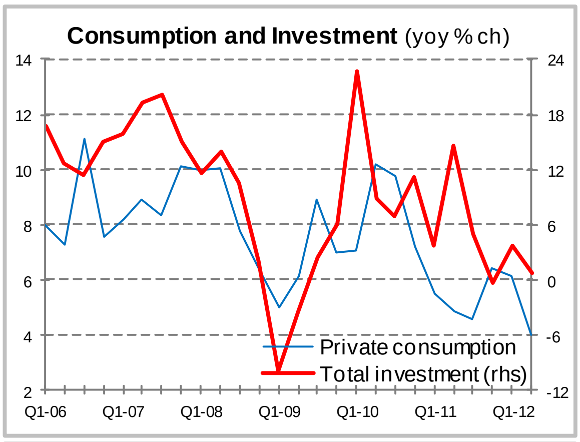
Sources: Reserve Bank of India, BIS, Office of Economic Advisor, Labour Bureau, Statistics India, daily press

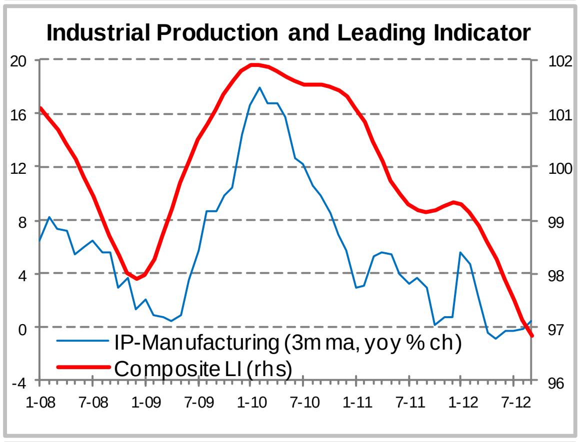
***Key message**: The economy is still struggling with a long-lasting slowdown. Policy action has so far been quite ineffective but the announced raft of reforms and the renewed commitment to fiscal consolidation may result in improved prospects next year.*

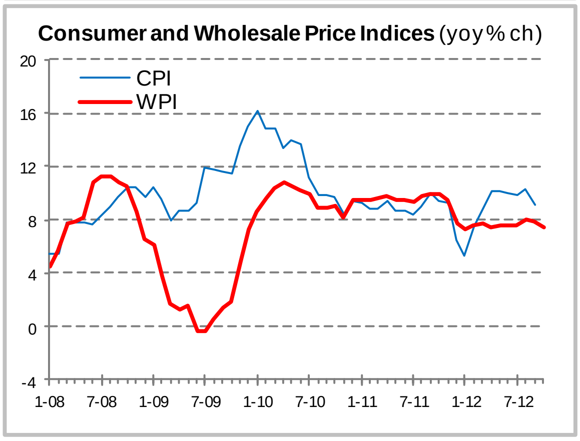
- GDP data for Q2 were slightly better than expected as yoy growth picked up slightly to 5.5% from the previous 5.2%. Expenditure side data (which are rather volatile and subject to large revisions) are, however, grimmer showing sensibly weakening consumption, an abysmal investment performance (strangled by high real interest rates) and strong public consumption growth. Prospects for the rest of 2012 are not benign given last July's large power shortages and an adverse monsoon season.
- Also, most recent economic indicators point to a still weak momentum while the trade deficit continues to widen on weak exports.
- A series of far reaching economic reforms were announced by the government in September in an effort to both shore up investors confidence and fight the economic downturn. Limited fuel subsidy reductions were decided (and implemented) and the opening up of various sectors to foreign direct investment (FDI) was announced.
- The announcement was greeted by investors and boosted the stock exchange while the *rupee* benefited only shortly by the improved confidence climate
- The government is set to miss the 5.1% deficit to GDP target once again in fiscal year (fy) 2012/13 as the deficit has ballooned during the economic slowdown on poor revenue collection and may come close to 6%. Later in October the finance minister announced a five-year roadmap aimed at reducing the deficit to 3% in fy 2016/17. The framework is yet to be fully developed but it will focus on further subsidy reductions for fuel, food and fertilizers – among the major expenditure cuts - and aggressive disinvestment targets through the sale of state owned enterprises' stakes.
- Despite some moderation in price pressure inflation remains stubbornly high deterring the Reserve Bank of India from easing monetary policy (resisting pressures from both the government and the business community).

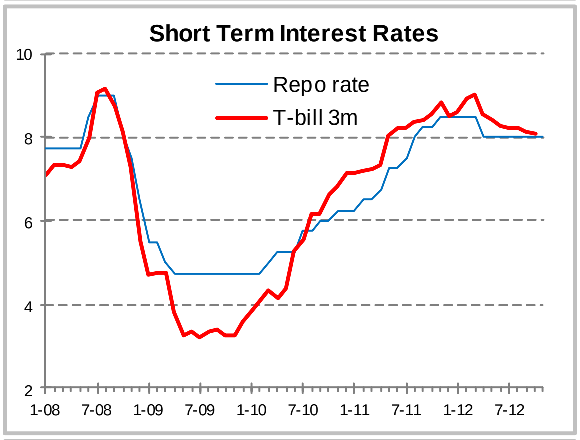
INDIA

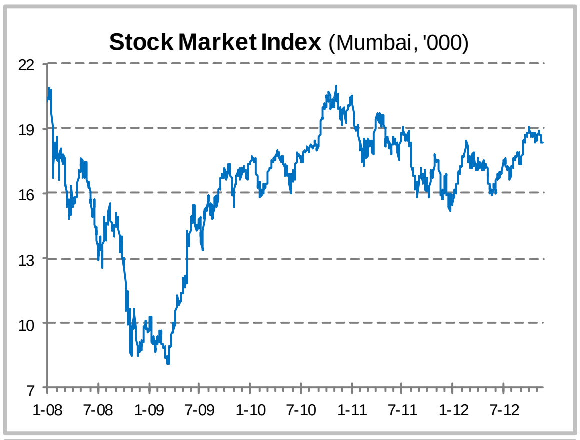


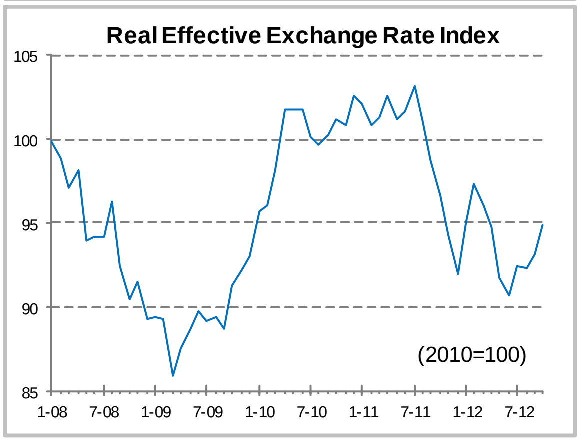


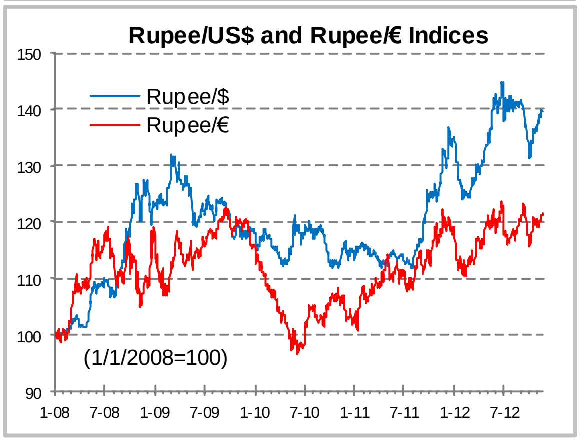












Sources: Reserve Bank of India, Office of Economic Advisor, Labour Bureau, Statistics India, BIS, daily press

CHINA

Real Indicators*	2009	2010	2011	Latest
GDP	9.2	10.4	9.2	7.4 Q3
Industrial Production	11.6	15.3	13.7	9.6 Oct
Consumer Prices	-0.7	3.3	5.4	1.7 Oct
Producer Prices	-5.4	5.5	6.0	-2.8 Oct
Trade Balance (US$bn)	249.5	254.2	245.8	196.6 Q3°
as a percentage of GDP	5.0	4.3	3.4	2.5
Real Effective Exchange Rate Index§	100.7	100.0	102.5	107.9 Oct

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

Financial Indicators	2009	2010	2011	Latest
1Y Lending Rate	5.3	5.4	6.4	6.0 Nov
Stock Exchange Index (Shanghai) (% ch)*	-10.4	3.0	-5.6	-8.7 20/11/12**

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

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

***Key message**: Most recent indicators point to an ongoing stabilisation of growth. In the face of a still weak external environment the chances of maintaining a relatively healthy economic pace hinge mainly on domestic economic policy loosening.*

- GDP continued to lose momentum in Q3 when growth was 7.4% yoy, the lowest since early 2009. The main culprits for the economic slowdown were weaker consumer demand and still slumping export. While the former was response to policy tightening in 2011, the latter was mainly related to falling demand from Europe. Government driven investment growth has likely avoided a 2009-style downturn.
- Signs are piling up pointing to a halt in the economic slowdown although a robust rebound in Q4 12 is not likely. The fast-tracking of a series of public infrastructure and construction projects is driving the acceleration in industrial activity, which, however, has so far been quite moderate. As a matter of fact, factory output growth started increasing in September and October but is still far from the double-digit figures of the expansion phases.
- Also the PMI for manufacturing is back in the expansion area but the improvement has been until now marginal thus signalling the likely bottoming out of the manufacturing sector with a still weak recovery momentum.
- Recent trade data surprised on the upside with growth in export faster than any month since May. However, given that the outlook for global trade in the coming month remains relatively grim this upturn may prove short-lived, according to the Chinese commerce minister.
- The government has again allowed the *renminbi* appreciation, also thanks to large trade surpluses in recent months. It is, however, reasonable to assume that this decision was also driven by political reasons ahead of the US presidential election (in an effort to withstand allegations of currency manipulation).
- The government will keep an expansionary fiscal stance focused on infrastructure investment projects. The retreat of inflation has also widened margins for repeated policy action by the monetary authority and further easing may be in the pipeline.

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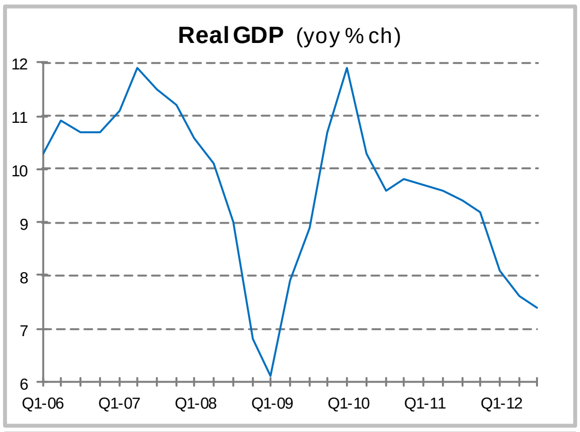
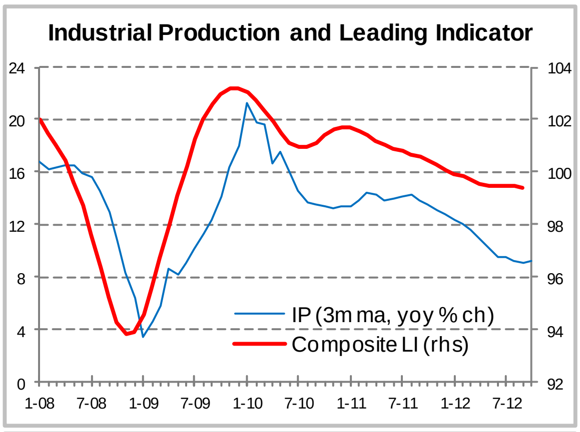
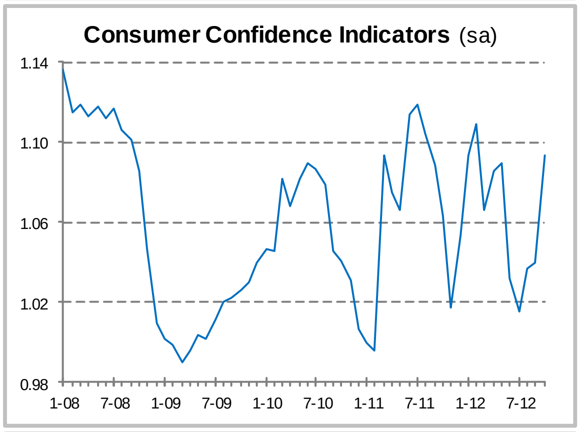
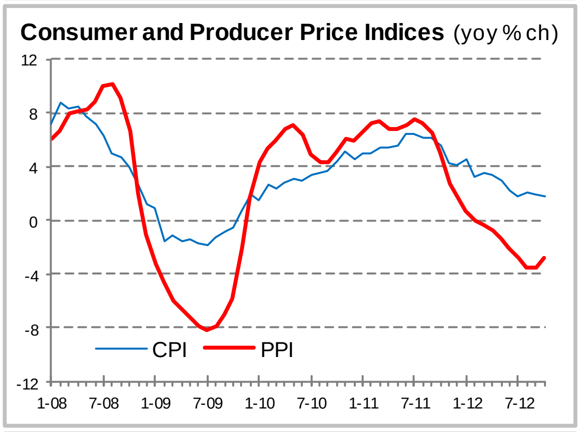
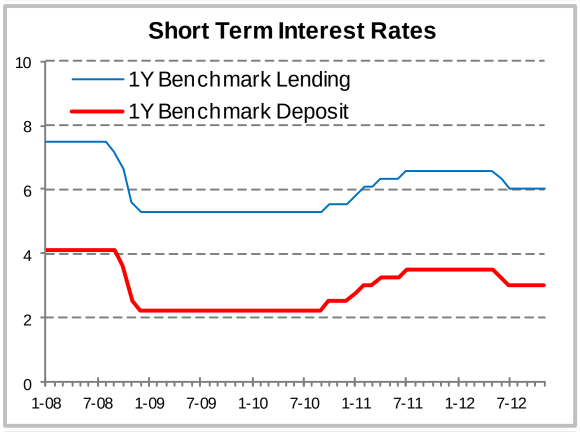
CHINA

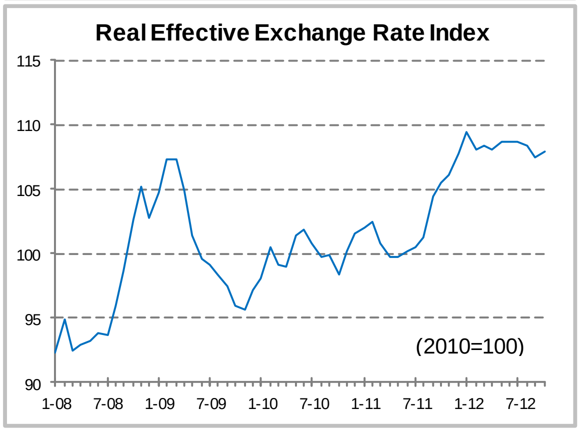


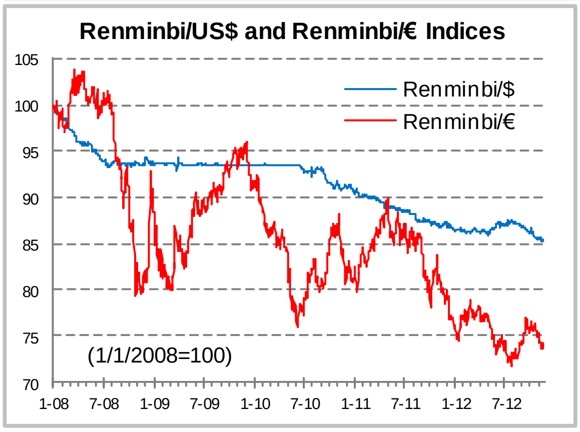












Sources: National Bureau of Statistics, OECD, EIU, People's Bank of China, daily press

KAZAKHSTAN

Real Indicators*	2009	2010	2011	Latest
GDP	1.2	7.3	7.5	5.2 Q3
Industrial Production	2.7	10.0	3.5	-0.8 Oct
Consumer Prices	7.3	7.1	8.3	5.5 Oct
Producer Prices	-22.2	25.3	27.3	1.3 Sep
Unemployment Rate (%)	6.6	5.7	5.4	5.2 Q3
Current Account Balance (US$bn)	-4.1	1.8	13.6	15.5 Q2°
as a percentage of GDP	-3.6	1.2	7.2	7.9
Real Effective Exchange Rate Index§	103.9	107.4	106.8	112.3 Sep

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

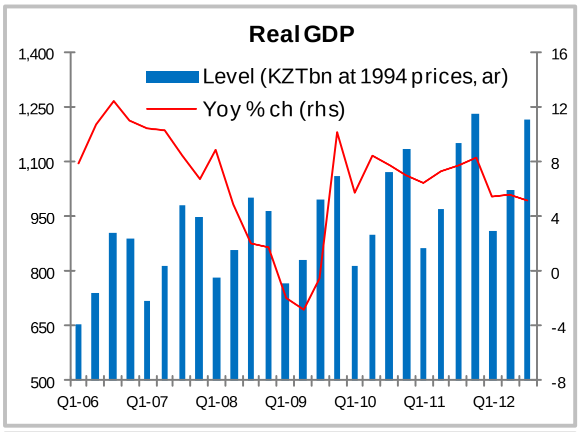
Financial Indicators				
Refinancing Rate (end of period)	8.3	7.0	7.4	5.5 Oct
Short Term Interest Rate pa (<1 year)	4.6	1.6	1.3	1.6 Sep
Exchange Rate Tenge/$	147.6	147.4	146.7	150.4 Oct

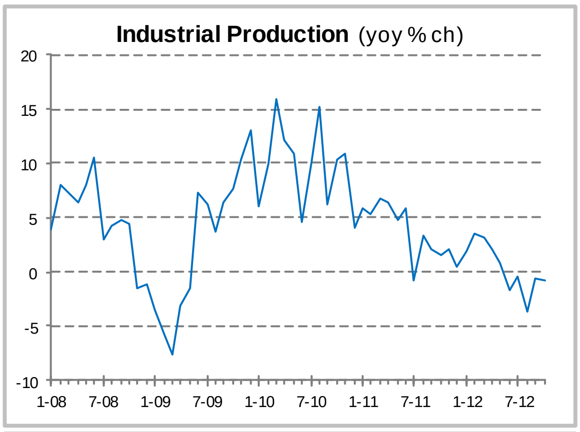
Sources: National Bank of Kazakhstan, EIU, IMF, Interstate Statistical Committee of the CIS

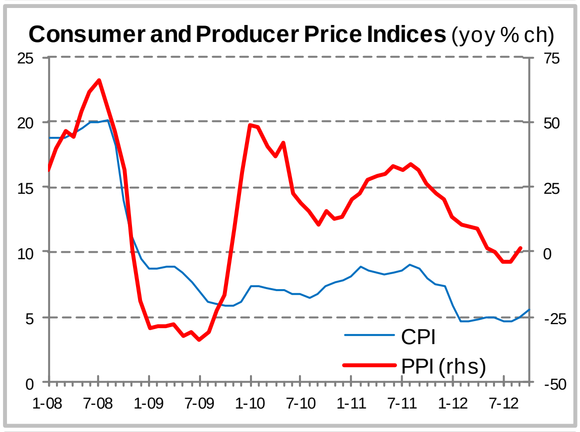
Key message*: The economy is losing traction amid sluggish industry and weaker export. Fiscal policy is, however, set to keep supporting growth while Kashagan oil field operations should eventually come on stream next year. The economy is also undermined by persisting banking sector problems related to still poor banks' asset quality.*

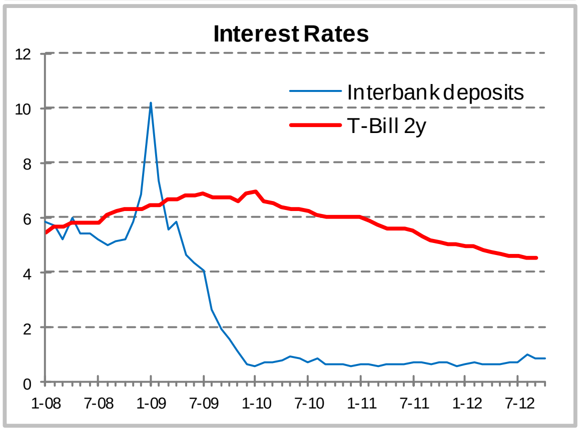
- GDP growth kept losing momentum in Q3 12, albeit remaining relatively healthy, on the back of sluggish industry activity and contracting agriculture output while construction is accelerating.
- Oil extraction remained flat in H1 12 also because of technical difficulties and wrangling over development terms and conditions of the companies participating to the consortium with the government which has so far delayed the coming on stream of oil from the Kashagan fields.
- Also reflecting weaker foreign direct investment inflows, investment activity in the mining sector fell short of expectations while domestic consumption held up relatively well over the first half of the year as real income growth was solid and employment trends favourable.
- The weakening trend in industry has, however, intensified over the summer months which, coupled with a particularly adverse harvest heralds difficulties in income formation ahead. In particular, drought has resulted in a fall of around 45% in grain crops this year.
- Government spending has increased substantially in H1 12 (+15% yoy in real terms) thus supporting growth. Given ongoing weakening momentum more Oil Fund resources will be channelled into the economy. This notwithstanding the overall fiscal balance has remained comfortably in surplus thanks to strong Oil Fund revenues.
- Latest inflation data sounded an alarm bell: service, food and energy prices drove the consumer price index up by a hefty 0.7% mom in October. In fact, inflation at the consumer level stopped declining already in August although it remains significantly below target (6-8%).

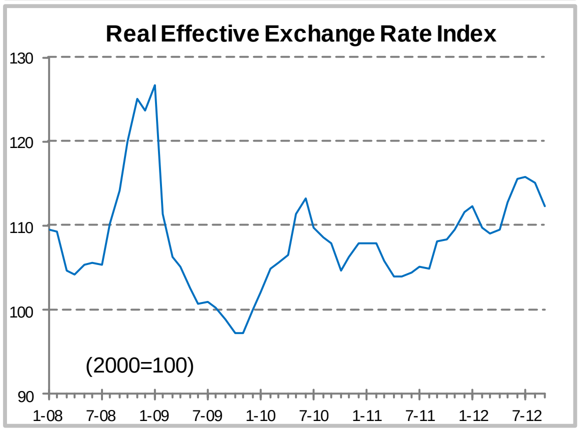
KAZAKHSTAN

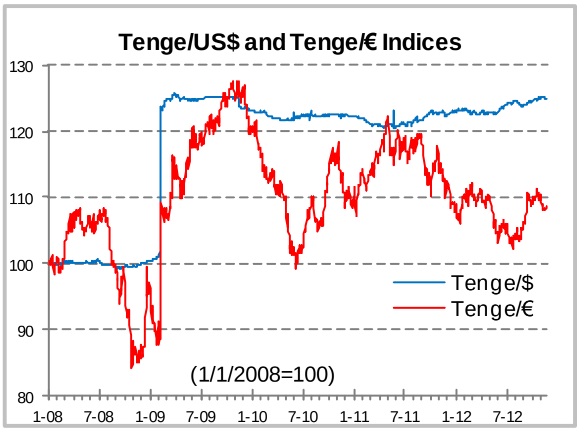












Source: National Bank of Kazakhstan