

Economic Profile in ITC Group Countries

N. 1 – April 6th 2011

Highlights

Global Economic Conditions:

Real Indicators

Financial Indicators

Countries:

United States

Canada

France

Belgium

Italy

Spain

Greece

Bulgaria

Egypt

Morocco

Turkey

Thailand

India

China

Kazakhstan

Key to Abbreviations

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

Based on all information up to April, 6th 2011

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

Available in @Gold

Highlights

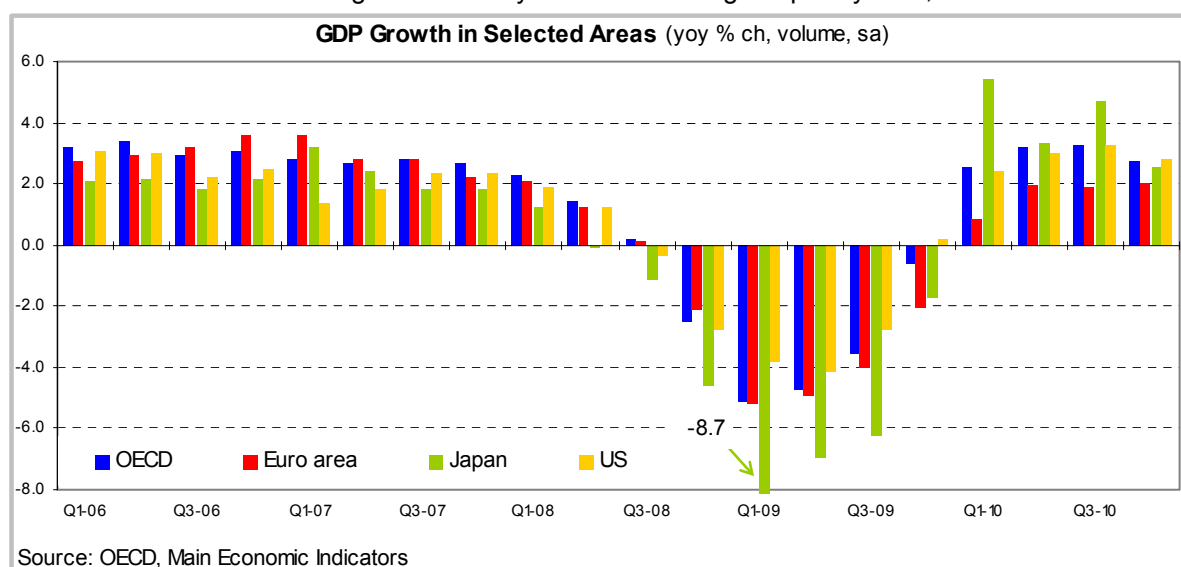
- At global level growth has further decelerated in Q4 10. A slight rebound should have occurred in Q1 11 also thanks to better than average weather conditions, especially in Europe.
- However, uncertainty over short term developments is on the rise, given – at least – three powerful engines, such as: risks of default in some peripheral euro zone countries, upheavals in the MENA region, widespread effects of the March earthquake in Japan.
- As for the first point above, the end-of-March EU Summit has addressed the issue and a number of goodwill announcements have been made, which, however, have not been so far sufficient to reassure financial mkts.
- From an economic point of view, turbulences in the MENA region are mainly related to oil/gas supplies. Oil prices have thus breached the 120\$/b threshold and could escalate to new record highs in case of disruptions emerging in other important producer countries besides Libya.
- Consequences of the Japanese earthquake are extremely difficult to assess at the moment as they involve primarily damages to production facilities, power shortages, and disruption to supply chains well beyond the area hit by the earthquake/tsunami. There is consensus that at least H1 11 will be severely affected while starting in Q3 11 there could be a boost to growth.
- Propped up by strong commodity price increases, inflation is on the rise across the board. In any case, it remains still low by historical standards and also in perspective risks that prices go out of control seem contained given ample spare capacity, high unemployment and a moderate wage dynamics in advanced economies.
- Almost paradoxically, while the US are performing by far better than the euro area monetary tightening is set to start first with the ECB. This has two major negative consequences when seen from an euro centred point of view:
 - first, it helps explain the renewed strength of the euro which makes export outside the area less competitive;
 - secondly, it makes the “one size fits all” monetary approach less sustainable as any increase in interest rates weighs heavily on debt overburdened countries.
- On the other hand, growth keeps going at a robust pace in the emerging area, particularly South-East Asia even though less accommodative monetary conditions in some main emerging countries (to start with China and India) could impact to some extent negatively on economic activity in the months ahead.
- On balance, and compared to a few months ago, a combination of somewhat higher inflation and lower growth seems set to prevail in the current year, although the range of possible outcomes has considerably widened given the interplay of a number of uncertainty factors.

GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)	2008	2009	2010	Latest
GDP: OECD	0.4	-3.5	2.9	2.7 Q4
Euro Area	0.4	-4.1	1.7	2.0 Q4
US	0.0	-2.6	2.9	2.8 Q4
Japan	-1.2	-6.3	3.9	2.5 Q4
Inflation: US	3.8	-0.4	1.6	2.1 Feb
Euro Area	3.3	0.3	1.6	2.6 Mar
Oil Price Level (Brent, \$/barrel)	97.7	61.9	79.6	114.0 Mar
(yoy % ch)	34.3	-36.7	28.7	44.4

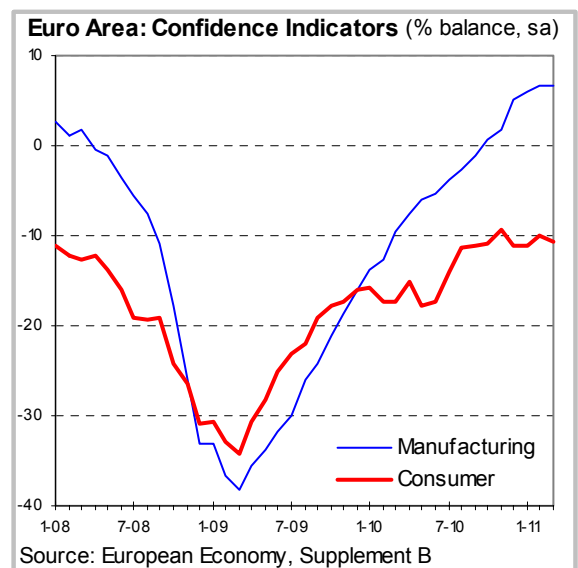
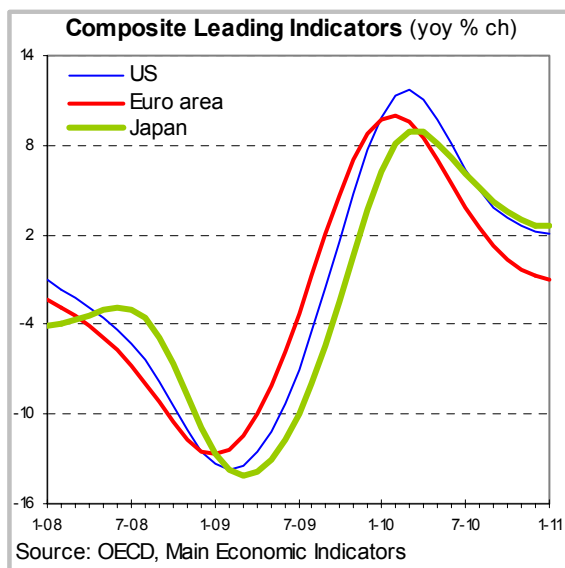
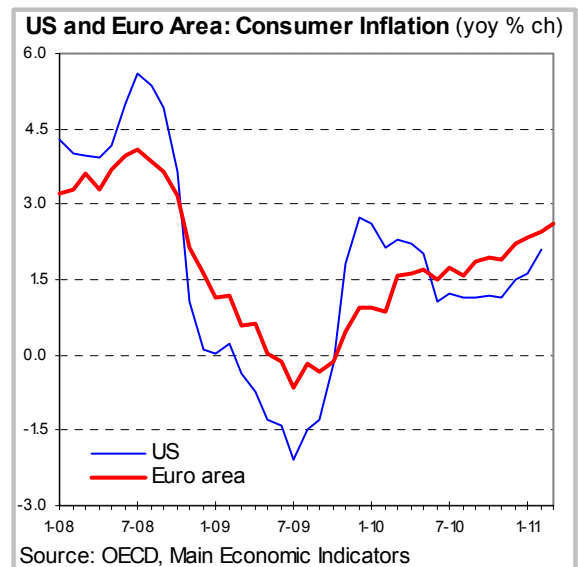
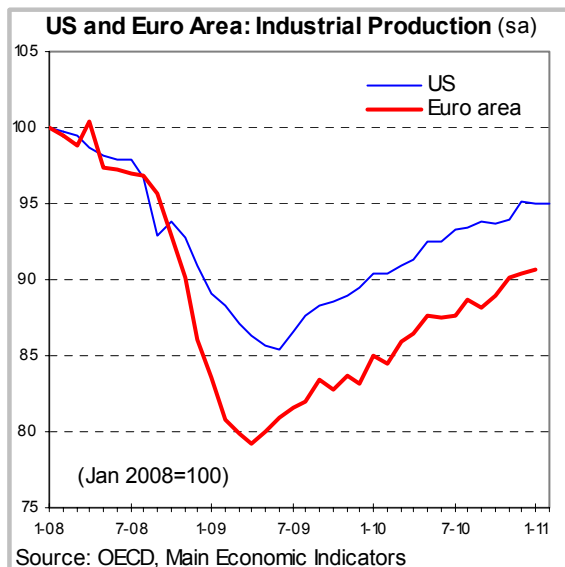
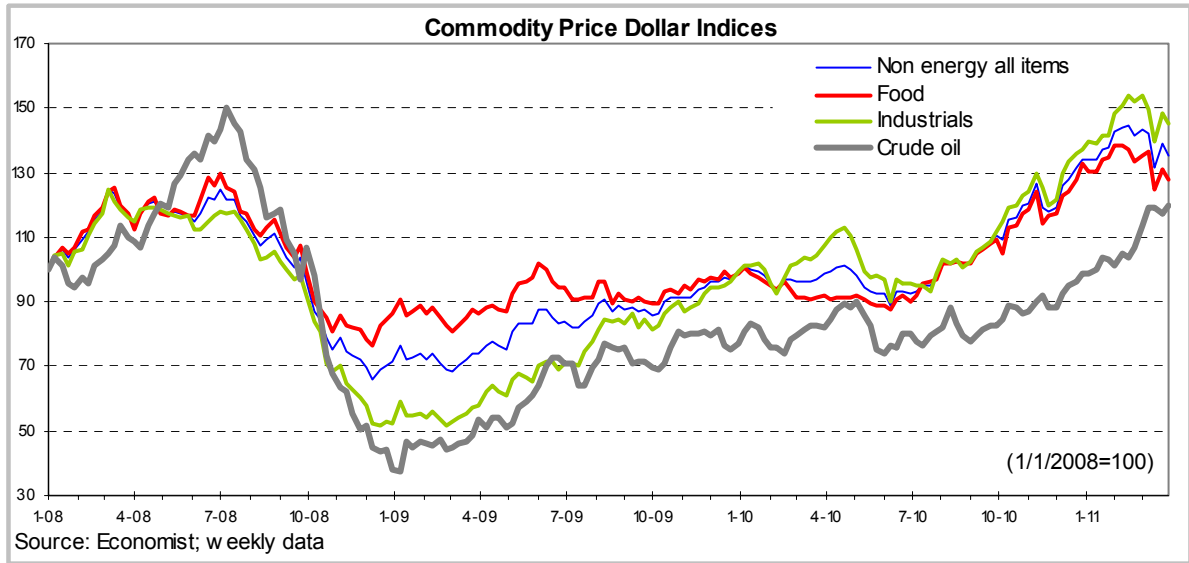
Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, US Energy Information Administration

- Over the latest two quarters the world economy gradually lost momentum as the inventory cycle started winding down and the fiscal stimulus was being withdrawn. World trade and investment appear set to push the recovery and make it self-sustained in most economies. Performances are still quite diversified across the globe with US and Germany, among the developed countries, and most emerging areas, particularly Asia, stronger than expected. While the carry-over from last year was larger than expected, prospects for 2011 are turning at present less favourable. Upheavals in the Middle East and North Africa (MENA) and the Japan earthquake/tsunami/nuclear crisis are set to impact on global prospects raising the overall degree of uncertainty.
- The MENA crisis is primarily having an effect on oil markets: while these were already fibrillating beforehand thanks to a brighter economic outlook, particularly in emerging countries, now worries over supplies are adding an estimated 25% increase to oil prices (as a rule of thumb, a 10% increase in oil prices trims 0.2% off global growth). In addition, as Japan is a key world player in the supply chain of many intermediate goods, disruption in production and shipment in Japan will have knock on effects globally. In addition, the rethinking of nuclear energy strategy in Japan and elsewhere may exert further pressure on oil and gas prices following and initial demand reduction.
- Inflation is now the world scare word. Industrial and food commodity prices have increased by over 60% and around 45%, respectively, since last year lows with oil prices up by 62%. Inflation expectations, in addition, may further rise as a consequence of the massive liquidity injections.
- At the last 24-25 March EU Summit new more stringent fiscal, prevention and sanction rules were agreed to be part of a new Stability and Growth Pact which should be discussed in the EU Parliament in June. Among other decisions, the characteristics of the European Stability Mechanism, which will substitute starting from January 2013 the existing temporary fund, have been set out.



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REAL INDICATORS



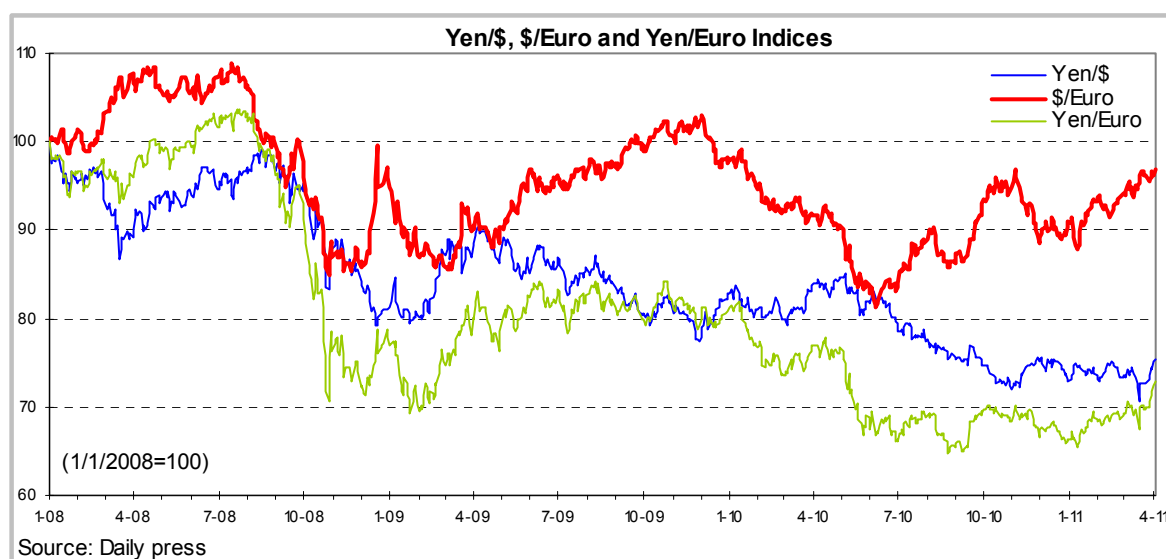
GLOBAL ECONOMIC CONDITIONS: Financial Indicators

	2008	2009	2010	Latest
Dollar/Euro Exchange Rate	1.471	1.394	1.326	1.335 *
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	1.00 13/05/09
Long Term Interest Rate (10y government bonds, year average):				
- US	3.66	3.26	3.22	3.58 Feb
- Euro Area	4.36	4.03	3.79	4.48 Feb

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

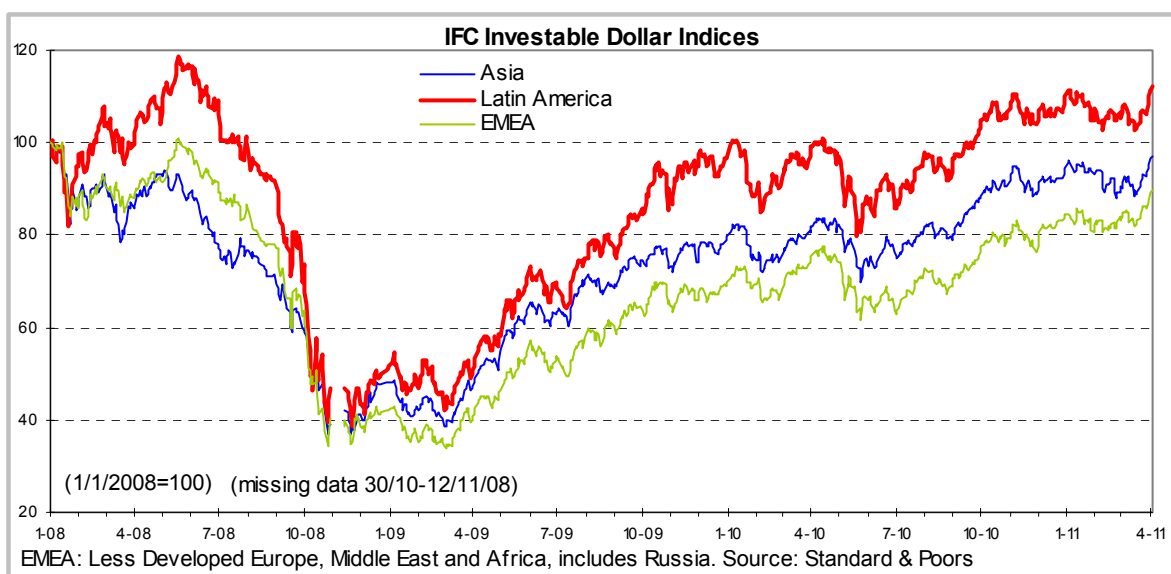
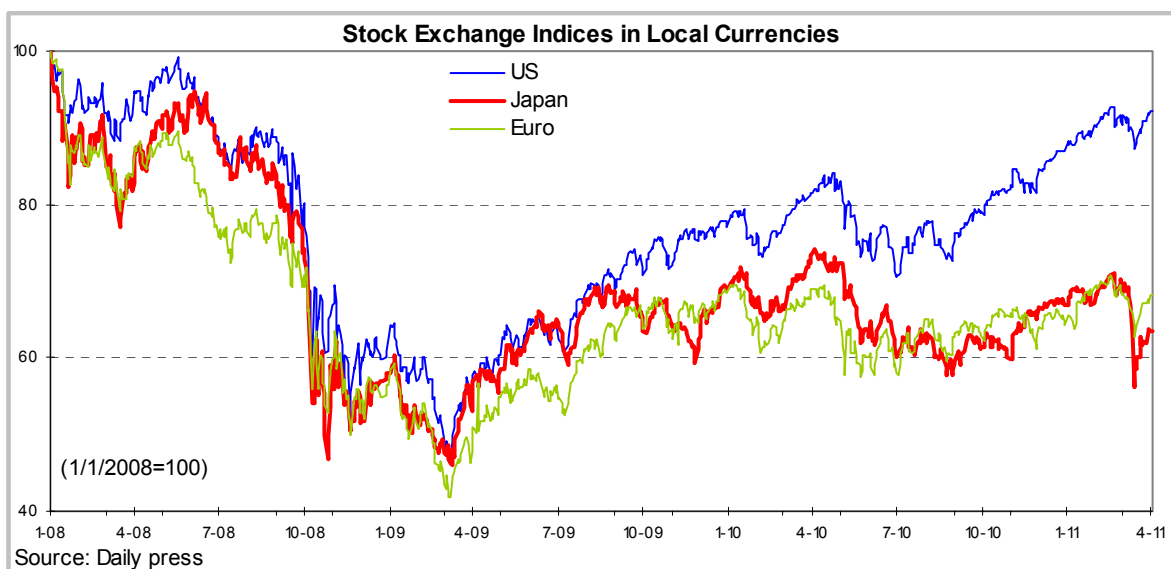
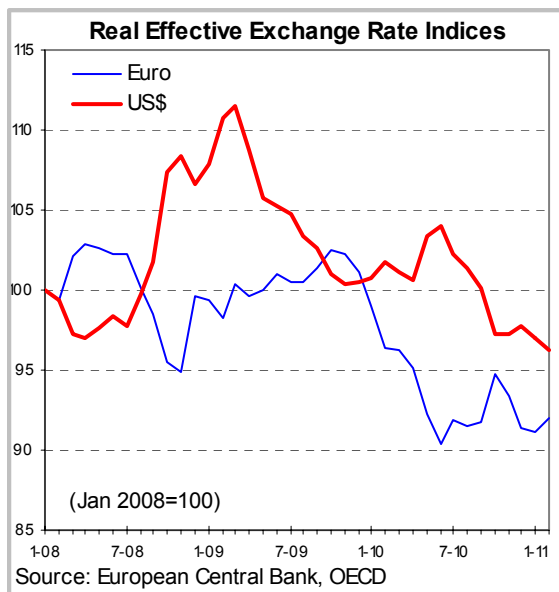
Sources: European Central Bank and Federal Reserve Bank

- Monetary conditions across the Atlantic Ocean remain very loose and Central Banks' balance sheets continue to expand in the US (and in Japan, to help the economy withstand the economic shock of the earthquake). In response to rising inflation expectations and doubts over the effective size of the output gap, the European Central Bank has clearly signalled that a policy rate hike is imminent in the euro area, which has been already anticipated by euribor rates since March.
- The Federal Reserve continues to support the current loose monetary stance although some members of the Board have recently grown more "hawkish" on inflation fears. However, unless growth surprises on the upside and/or wages rise above productivity, the ongoing expectation is that the Fed will remain on hold in the next few quarters.
- The EU Council conclusions of the last Summit (see above) have raised mixed critiques among analysts, ranging from enthusiastic assessments to very sceptical views on their viability and enforceability. In fact, the euro sovereign crisis is far from being resolved, although so far this year it has not ranked so high in the media attention. Looking at recent CDS spreads for Greece, markets do not seem to have been too reassured by the Council declarations.
- In emerging countries, robust economic growth coupled with commodity and energy price hikes and in some cases supply bottlenecks has been sparking inflation over the past year and the beginning of 2011. Monetary tightening, which has already initiated last year, is thus continuing.
- Stock markets worldwide are generally recovering from the sharp falls following the Japan tragedy with most impressive advances in emerging economies. While US benchmark long-term yields remain quite volatile, German yields are instead on the rise likely incorporating interest rate hikes by the ECB soon. Other euro area yields hikes reflect also concerns related to the euro sovereign solvency issue. In this respect, the ongoing euro strength appears somewhat at odds.

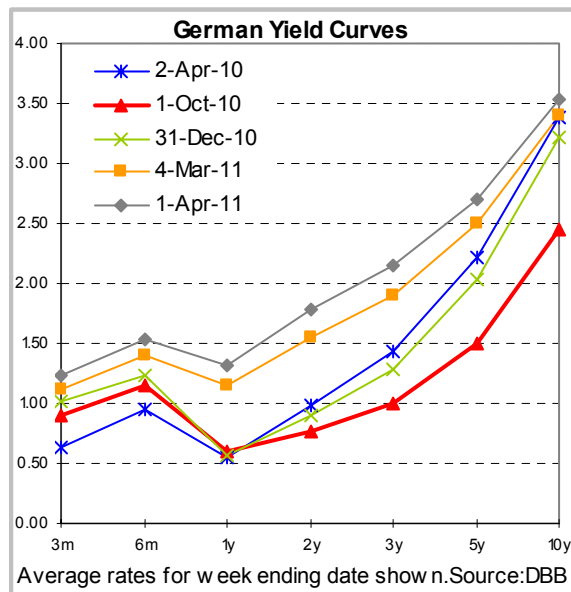
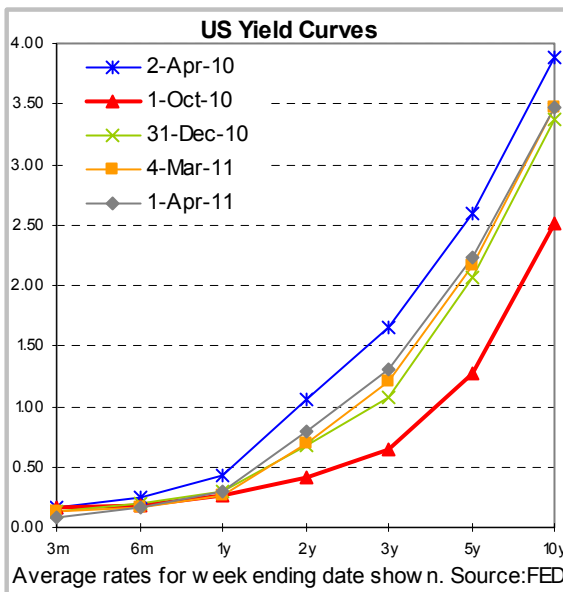
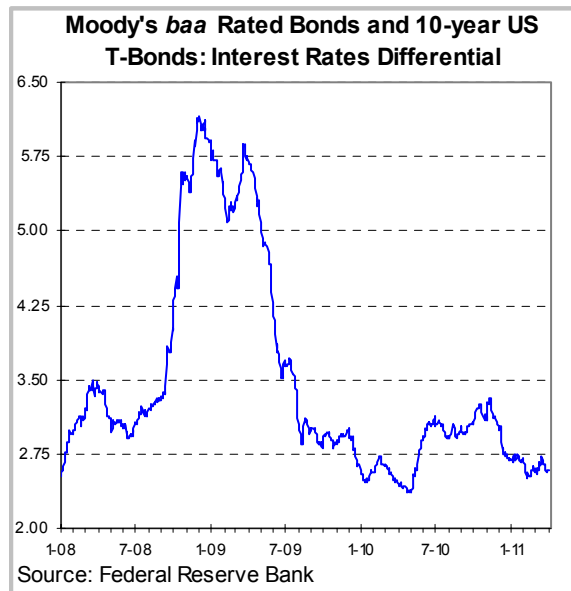
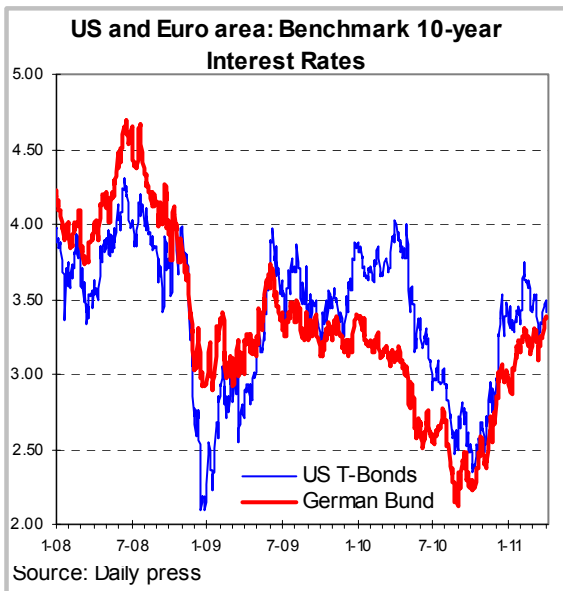
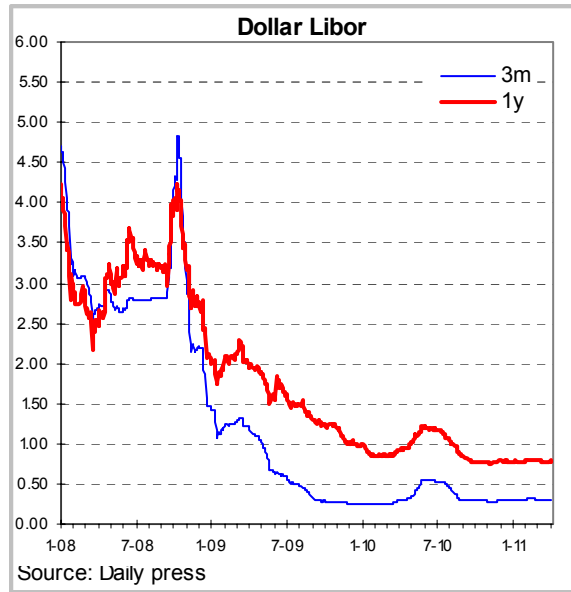
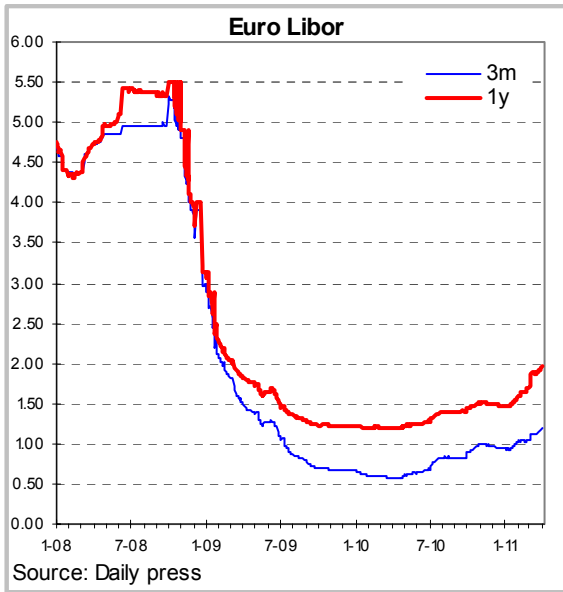


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FINANCIAL INDICATORS

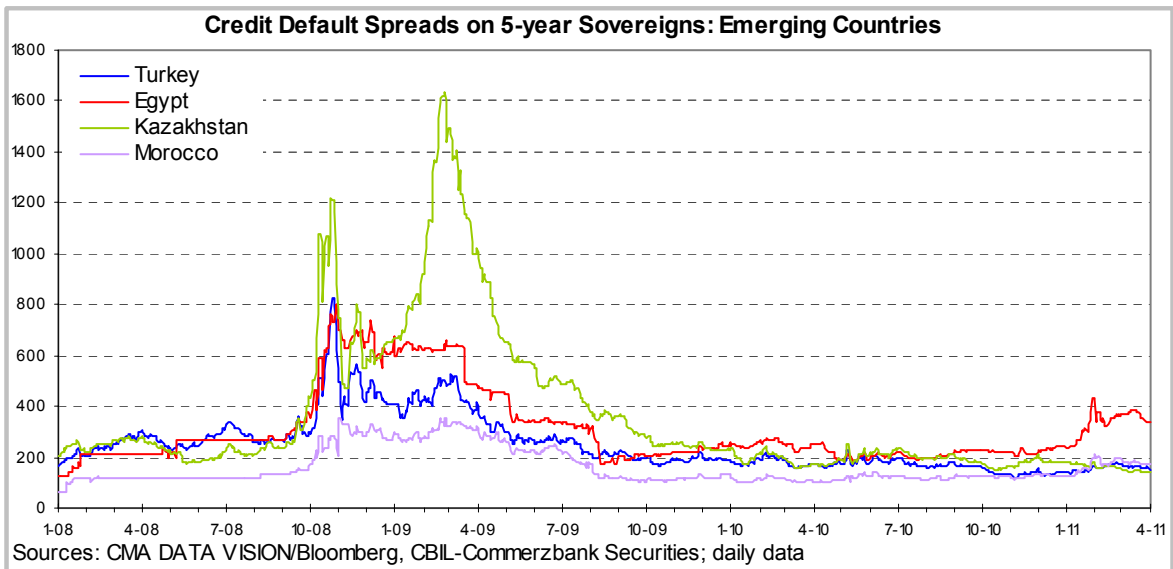
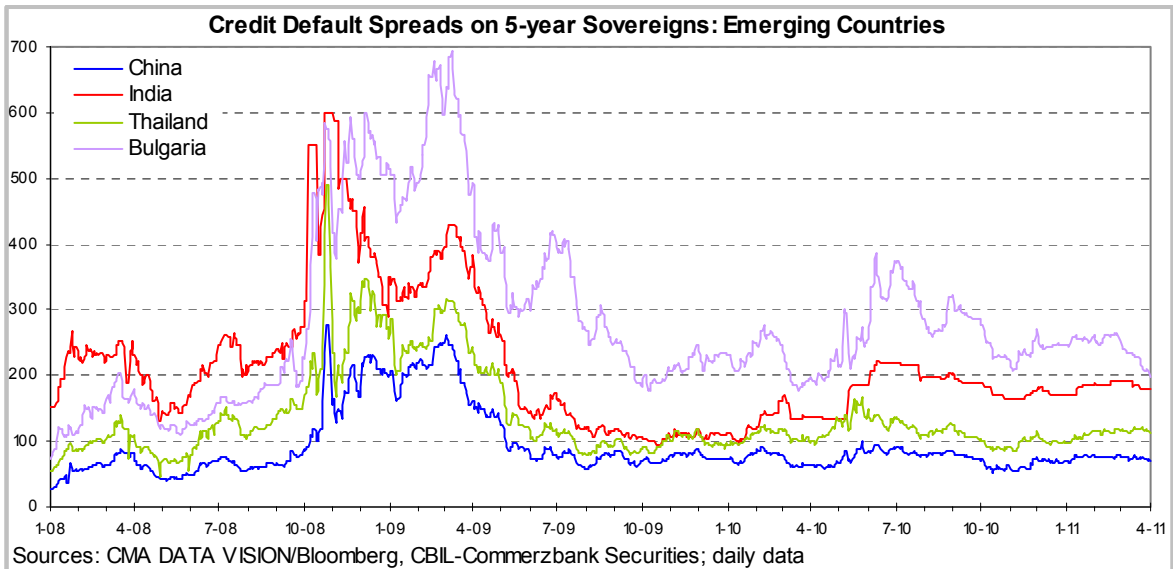
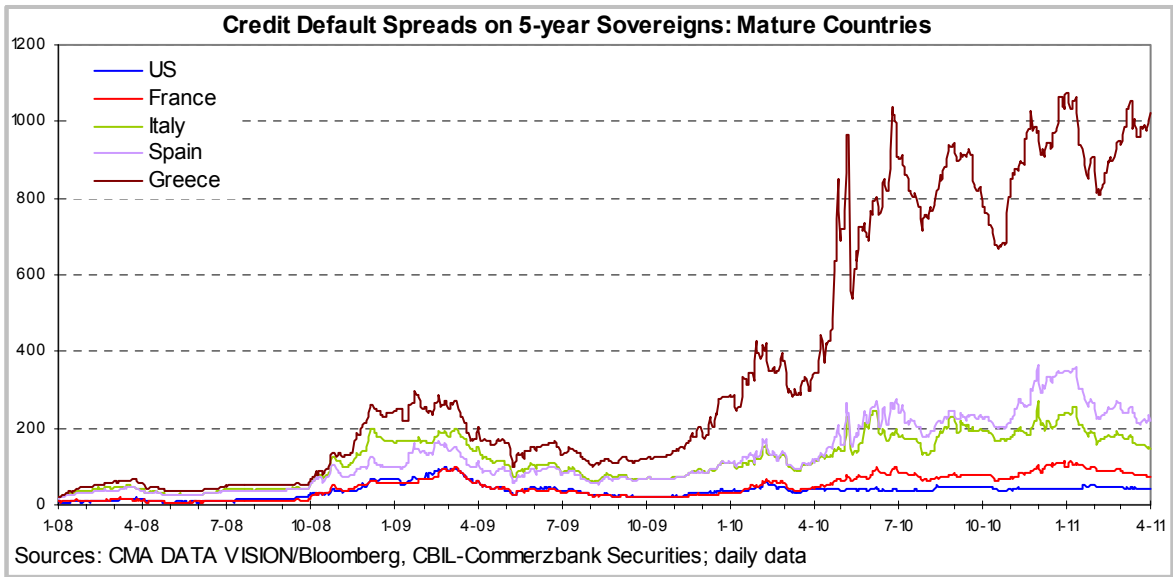


FINANCIAL INDICATORS



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FINANCIAL INDICATORS



UNITED STATES

Real Indicators*	2008	2009	2010	Latest
GDP	0.0	-2.6	2.9	2.8 Q4
Industrial Production	-3.3	-9.3	5.8	-0.1 Feb**
Construction Investment	-8.8	-17.0	-6.9	-3.4 Q4
Consumer Prices***	3.8	-0.4	1.6	2.1 Feb
Producer Prices – Finished Goods***	6.3	-2.6	4.2	5.6 Feb
Hourly Earnings – Manufacturing***	2.8	2.8	2.0	2.4 Mar
Standardised Unemployment Rate (%)	5.8	9.3	9.6	8.8 Mar
Current Account Balance (US\$bn)	-668.9	-378.4	-470.2	-470.2 Q4°
- as a percentage of GDP	-4.7	-2.7	-3.2	-3.2
Real Effective Exchange Rate Index [§]	90.5	94.3	90.1	85.4 Feb

* % yoy ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q4 included; § 2005=100

Financial Indicators				
Short Term Interest Rate pa (3m CD)	2.97	0.55	0.31	0.28 Feb
Long Term Interest Rate pa (benchmark 10y)	3.66	3.26	3.22	3.58 Feb
Stock Exchange (S&P 500) Index (% ch)*	-17.2	-22.5	20.3	6.0 04/04/11**

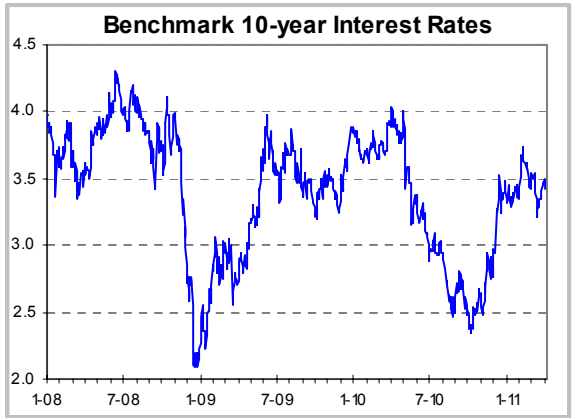
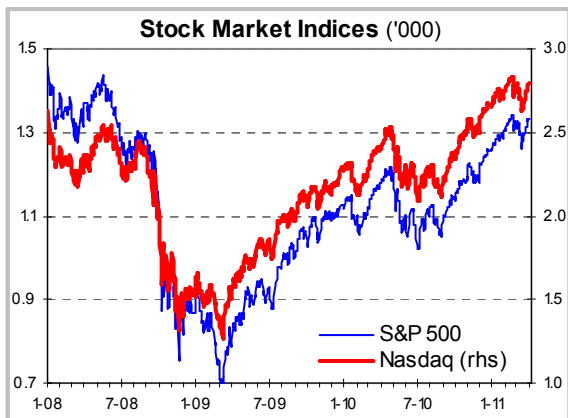
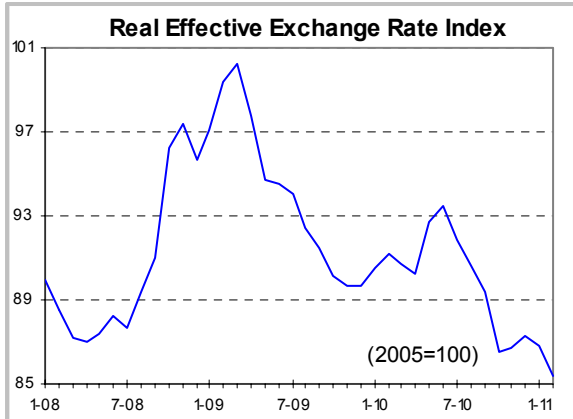
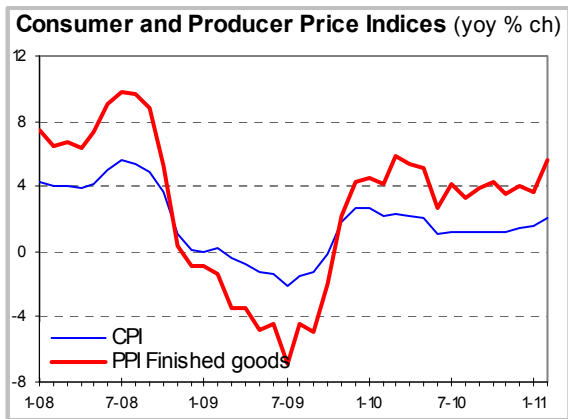
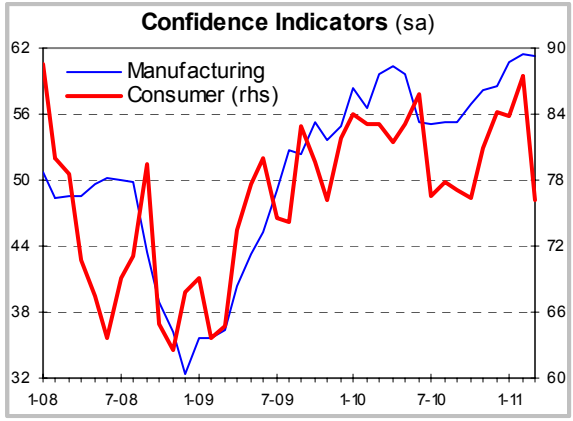
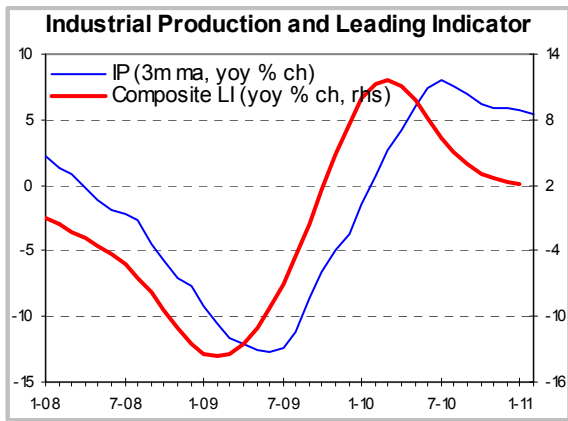
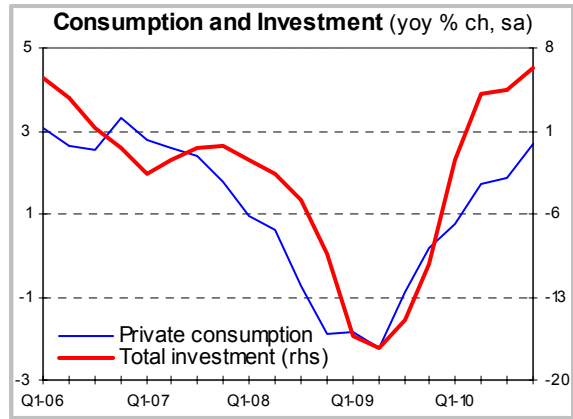
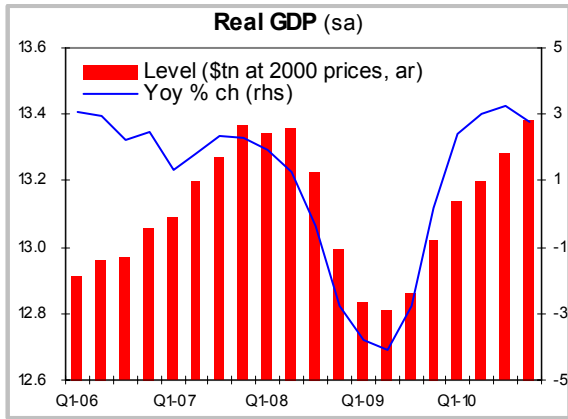
* Average over year; ** % change on 31/12/10

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

- The US economy picked up in Q4 10 when GDP growth accelerated to 0.8% qoq (up from 0.6% and 0.4% qoq in Q3 and Q2, respectively) driven by buoyant consumption and external demand. Notably, this results implies a robust carry-over of 1% in GDP growth in 2011. Private consumption was up by 2.2% qoq driven by a jump in non-durable goods spending (+4.9% qoq). Government spending fell meaning that the strong demand performance was not any more supported by public outlays.
- Investment regained some ground as it grew by 1.7% qoq (up from the previous quarter 0.4%). All investment components were positive, including residential and non-residential investment in structure, a positive development for the ailing construction sector. Inventories dragged 0.8% from overall qoq GDP growth which in turn bodes well for near-term growth.
- Export kept expanding briskly, also buoyed by a weak dollar, which, coupled with a drop in import, also related to the large inventory drawdown, resulted in a positive contribution to growth from net export (+0.8% qoq).
- While households continue to face tight credit conditions, the corporate sector is reportedly in financial health. According to national accounts data, corporate profits grew by 29.2% in 2010 - the largest increase in more than 50 years and reaching a level exceeding their Q3 06 peak - although the robust gains observed at the beginning of the recovery seem to be dissipating. This is a strong indication that businesses have the means necessary to invest in both labour and capital.
- The latest employment report of March was particularly heartening and offered evidence that the labour market is finally joining the broader economic recovery. Employers added a net 216,000 job, a figure which, if stable over the coming months, could meaningfully draw down the unemployment rate. The figure was not biased by weather related events (as in Jan-Feb). In addition, the average workweek remained unchanged suggesting that companies are beginning to hire rather than rely on increased overtime.
- At the end of last year, President Obama managed to pass a tax cut and spending package which should boost consumer spending, through the Social Security payroll tax cut and extended unemployment insurance benefits, as well as business spending, through investment incentives.
- According to the latest high frequency indicators real spending may disappoint in the first part of 2011 owing to a still weak employment and falling confidence. Leading indicators point also to a slowing down in industrial production although business sentiment remains high.

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UNITED STATES



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

CANADA

Real Indicators*	2008	2009	2010	Latest
GDP	0.5	-2.5	3.1	3.2 Q4
Industrial Production	-5.6	-10.7	6.1	0.5 Jan**
Construction Investment	2.2	-8.7	7.1	7.3 Q4
Consumer Prices***	2.4	0.3	1.8	2.2 Feb
Producer Prices - Manufacturing***	4.3	-3.5	1.0	3.4 Feb
Hourly Earnings - Manufacturing***	1.7	-5.0	5.0	6.2 Dec
Standardised Unemployment Rate (%)	6.1	8.3	8.0	7.8 Feb
Current Account Balance (Can\$bn)	6.9	-43.5	-50.0	-50.0 Q4°
as a percentage of GDP	0.4	-2.8	-3.1	-3.1
Real Effective Exchange Rate Index [§]	106.2	100.9	110.4	113.3 Feb

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q4 included; § 2005=100

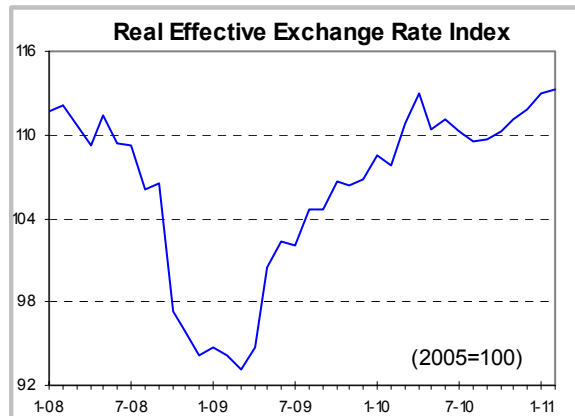
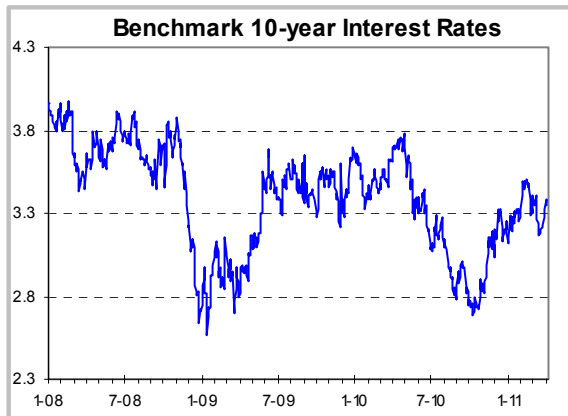
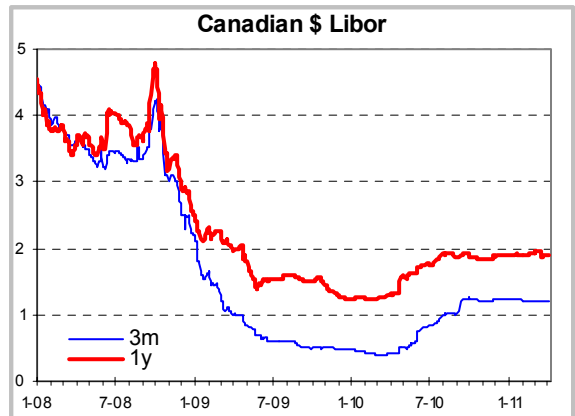
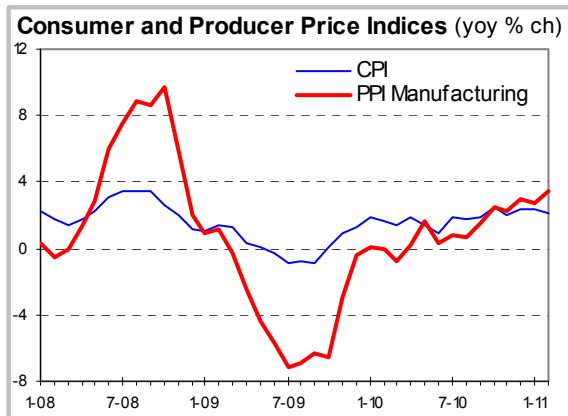
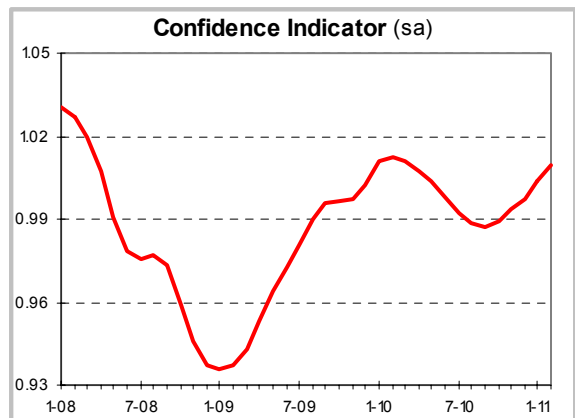
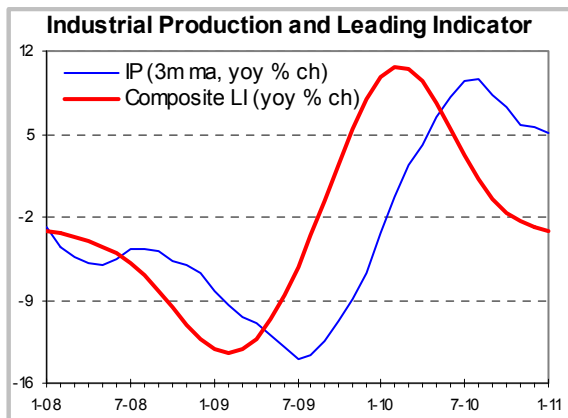
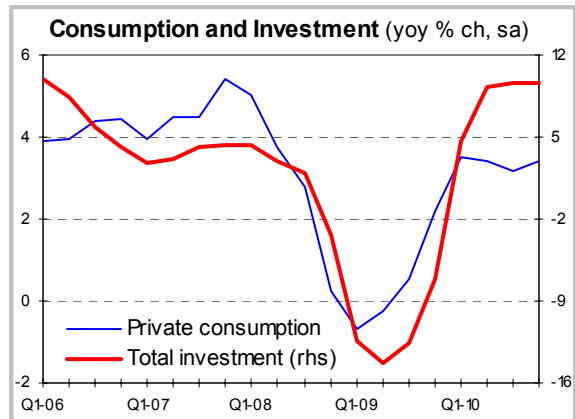
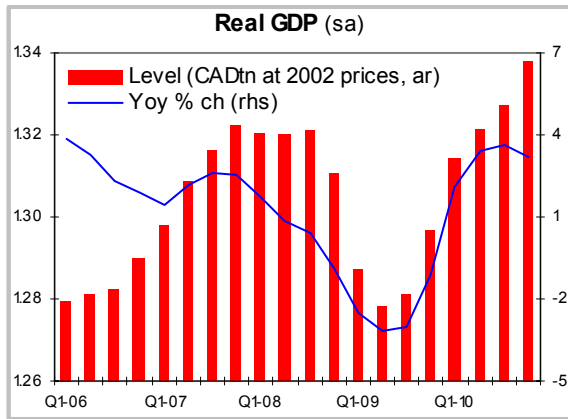
Financial Indicators				
Short Term Interest Rate pa (o/n)	2.96	0.39	0.60	0.99 Feb
Long term interest rate pa (benchmark 10y)	3.60	3.23	3.24	3.41 Feb
Stock Exchange (TSE) Index (% ch)*	-8.2	-18.7	18.7	5.9 04/04/11**

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

Sources: OECD, Statistics Canada, BIS, daily press

- Canada's economy ended last year on a surprisingly strong note with an advance in GDP of 0.8% qoq. Strong commodity prices have added momentum to the recovery, providing a boost to the terms of trade and more than offsetting the contractionary impact of the soaring Canadian dollar.
- Much of the strength was attributable to net exports, which contributed a stunning 4.5pp to economic growth - the largest contribution since the early 2000s. Crude oil exports rose by almost one-third in volume terms and also private consumption contributed remarkably, posting its highest qoq gain since 2007. On the other hand, business inventories fell, suggesting the surge in demand from the US and Canadian consumers was largely unanticipated.
- Inflation edged down to 2.2% yoy in February from 2.3% yoy in January, with gasoline prices 15.7% higher than a year earlier. Meanwhile, core inflation, which excludes the eight most-volatile items and the effect of changes in indirect taxes, fell to 0.9% yoy (from 1.4% yoy in January).
- Private sector employment weakened in February following a buoyant employment result in January, which thus appears to have been only a blip.
- The recent sharp upward shift of the Canadian dollar and tighter credit standards on home mortgages and home equity lines of credit - taking effect on March, 18th and April, 18th 2011, respectively - constitute a fairly significant tightening in broad monetary conditions that will hit the economy in the first half of 2011.
- Based on these results, the probability grows that the Bank of Canada will remain in neutral mode over the next few policy meetings. Rate rises are thus unlikely to be on the table until the July meeting, at the earliest.
- On the fiscal front, this year's Budget marks a shift from stimulus to restraint. It is a difficult transition, as witnessed by the continuation of several measures to ensure that the positive economic momentum and job creation are not interrupted.

CANADA



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	0.1	-2.5	1.5	1.5 Q4
Industrial Production	-2.4	-12.5	6.1	1.0 Jan**
Construction Investment (wda)	-0.8	-5.6	-6.0	-4.5 Q4
Consumer Prices - Harmonised Index***	3.2	0.1	1.7	1.8 Feb
Producer Prices - Manufactured Goods***	5.3	-7.3	3.3	5.4 Jan
Hourly Earnings - Manufacturing (<i>ouvriers</i>)***	3.1	2.1	1.8	1.8 Q4
Standardised Unemployment Rate (%)	7.8	9.5	9.8	9.6 Feb
Current Account Balance (€bn)	-37.1	-36.8	-40.0	-40.0 Q4°
as a percentage of GDP	-1.9	-1.9	-2.1	-2.1
Real Effective Exchange Rate Index [§]	100.4	100.4	96.7	95.5 Feb

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q4 included; § 2005=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	4.64	1.22	0.81	1.09 Feb
Long Term Interest Rate pa (benchmark 10y)	4.23	3.65	3.12	3.60 Feb
Stock Exchange (CAC) Index (% ch)*	-24.2	-23.1	12.1	6.3 04/04/11**

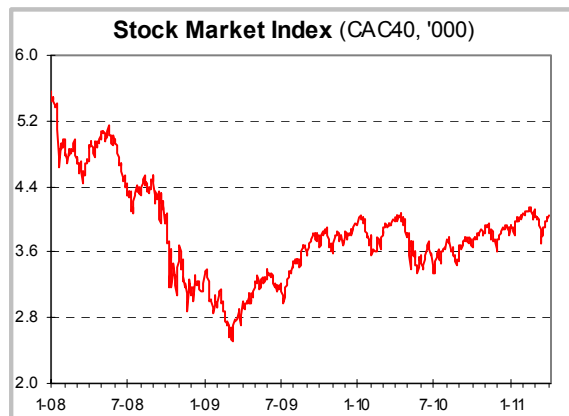
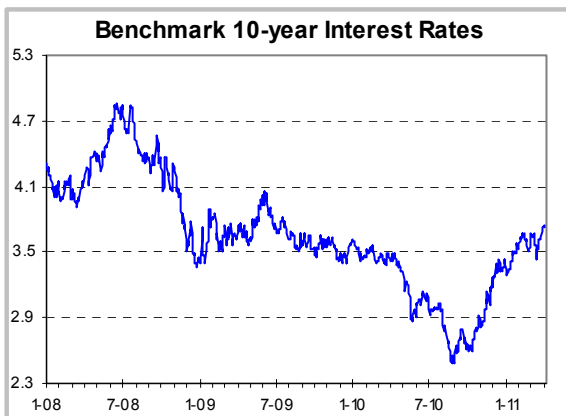
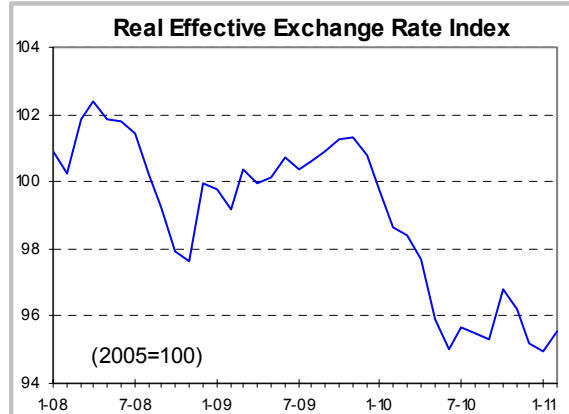
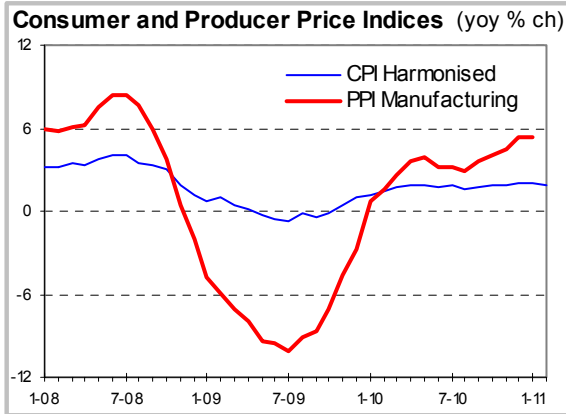
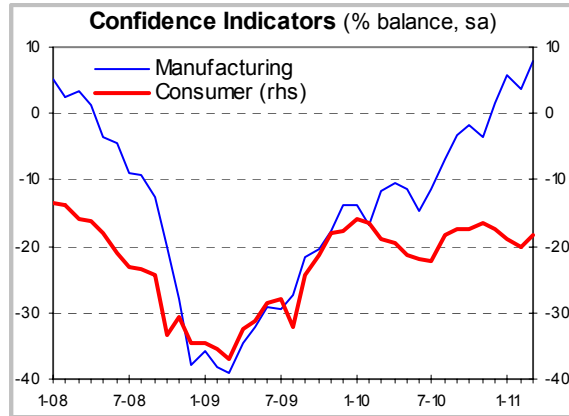
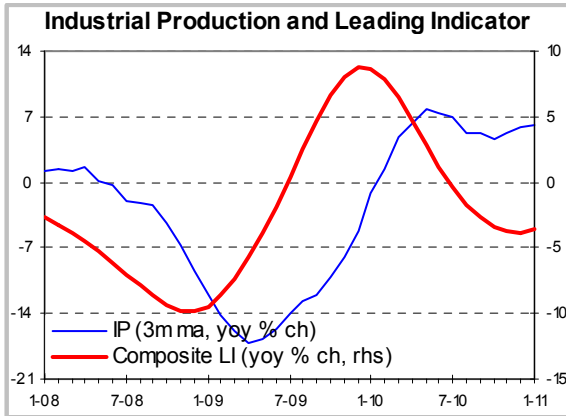
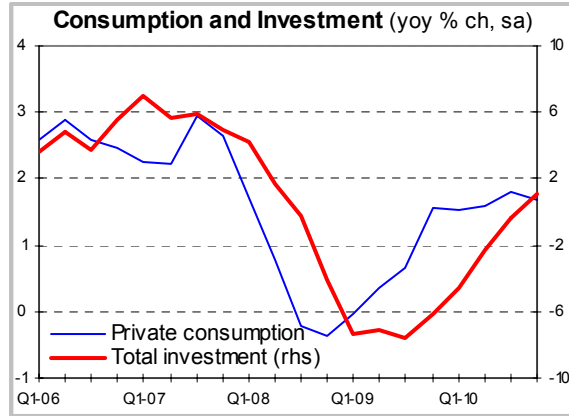
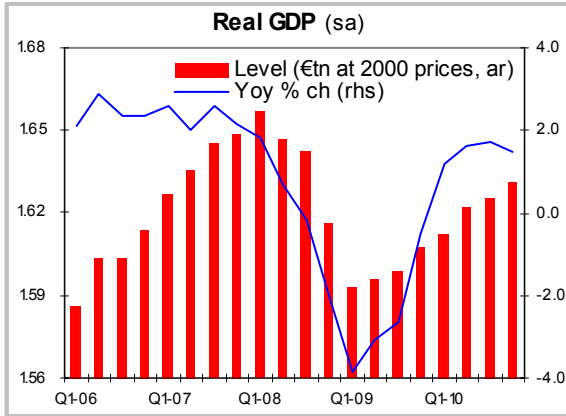
*Average over year; ** % change on 31/12/10

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

- According to the latest revised national accounts figures GDP accelerated in Q4 10 to 0.4% qoq from 0.2% qoq recorded in Q3 10 driven by private consumption and net export. This result was somewhat disappointing although growth has likely suffered from bad weather and the heavy strikes against the government's new pension scheme last October.
- Household consumption increased by a healthy 0.9% qoq (up from 0.5% qoq in Q3 10) buoyed in part by more dynamic wages per head but also, and primarily, by robust purchases of autos as consumers took advantage of the car scrappage scheme before its withdrawal on January, 1st 2011. Meanwhile, total investment kept losing momentum and increased by 0.3% qoq (down from 0.5% and 0.9% qoq in the previous Q3 and Q2 10, respectively). In fact, the deceleration in Q4 is mostly attributable to the public and household component as extremely bad weather conditions seriously hampered civil engineering and residential activity.
- Also export continued to decelerate over the full year while import actually fell in Q4 10 resulting in a positive net export contribution to overall GDP growth which, however, was more than compensated by the large negative contribution from de-stocking.
- Data for consumption of manufacturing goods in February were surprisingly strong, +0.9% mom following f -0.3% mom in January, driven by a rebound in car sales and a good performance in household equipment. This rebound may have been, however, partly supported by temporary factors, in particular a backlog in car orders from the scrappage scheme just expired.
- As a matter of fact, overall conditions for household consumption appear less supportive ahead. On top of the ending of the car scrappage scheme, the reduction of tax breaks on dividends, savings, and capital gains on housing, as well as still fragile labour conditions, deteriorating consumer confidence, particularly on future inflation, are expected to hit consumer spending this year.
- Industrial output rebounded in January (+1% mom) although this was largely expected following the December industrial disruption caused by heavy snow. Leading indicators signal healthy activity in the following months. According to the latest business surveys, order books, particularly of export goods, are still improving as well as capacity utilisation which will nevertheless remain somewhat depressed by a contracting automotive industry.
- Preliminary official figures for 2010 reveal that the public deficit to GDP ratio performed much better than expected falling to 7% (from 7.5% in 2009). This will clearly take some pressure off the government this year when the fiscal target has been set at 6% ahead of the 2012 elections.

n. 1 - April, 6th 2011

FRANCE



Sources: OECD, INSEE, BIS, daily press

BELGIUM

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	0.8	-2.7	2.1	2.0 Q4
Industrial Production	-0.8	-12.2	5.3	3.0 Jan**
Construction (Gross Value Added)	-0.1	-3.4	-0.1	2.3 Q4
Consumer Prices – Harmonised Index***	4.5	0.0	2.3	3.5 Feb
Producer Prices***	7.6	-5.4	6.9	11.0 Feb
Hourly Earnings-Industry***	2.9	2.6	1.1	0.9 Q4
Standardised Unemployment Rate (%)	7.0	7.9	8.3	7.6 Feb
Current Account Balance (bn €)	-6.5	2.9		3.7 Q3°
as a percentage of GDP	-1.9	0.8		1.1
Real Effective Exchange Rate Index§	103.0	103.1	100.1	100.3 Feb

* 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	1.09 Feb
Long Term Interest Rate pa (benchmark 10y)	4.41	3.90	3.46	4.21 Feb
Stock Exchange (BEL20) Index (% ch)*	-29.1	-31.8	19.7	5.0 04/04/11**

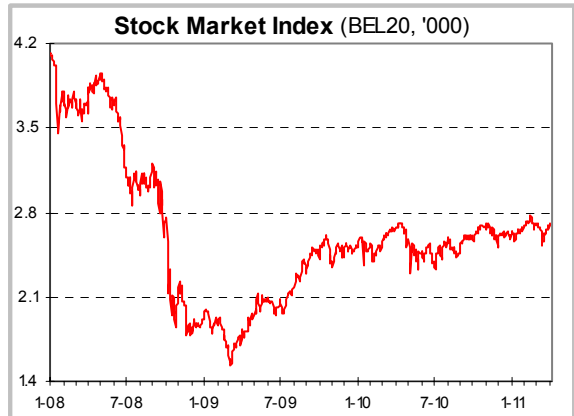
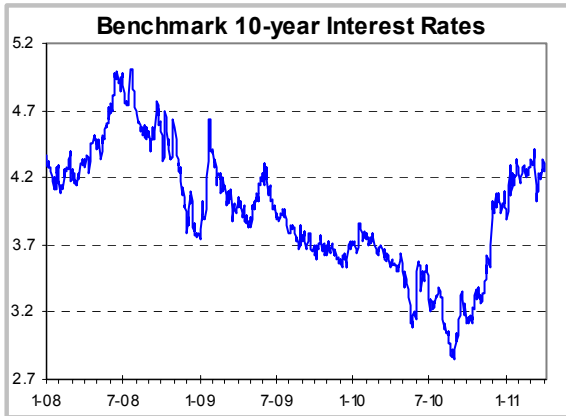
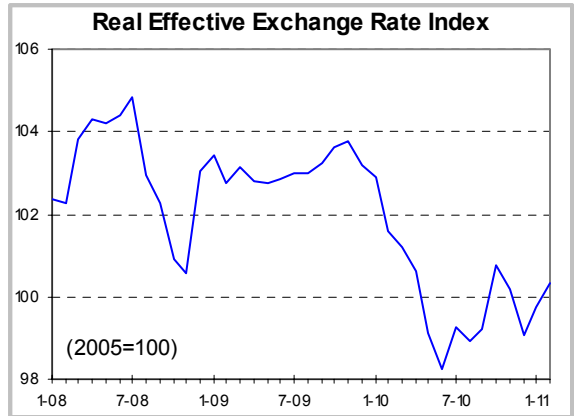
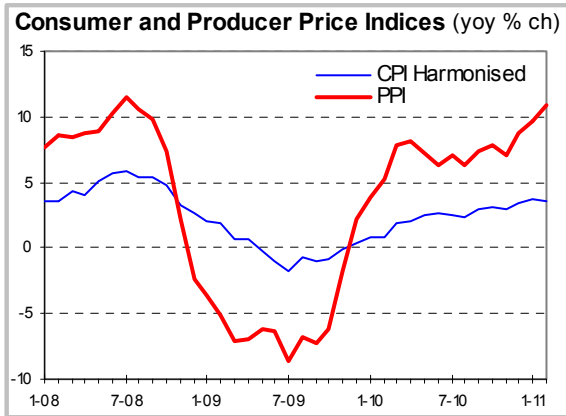
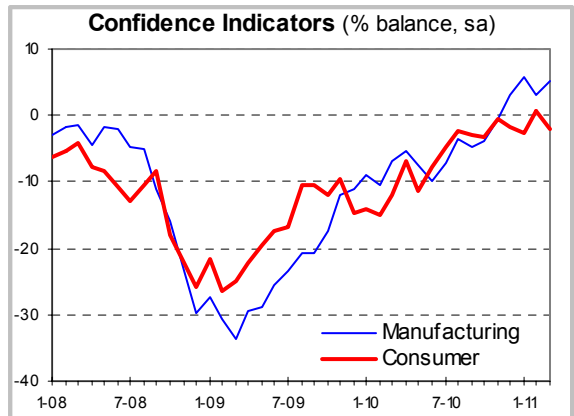
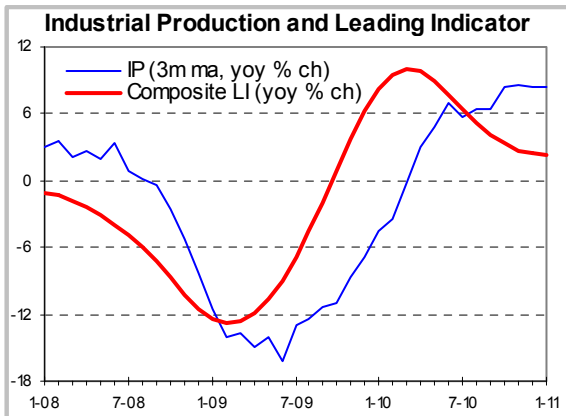
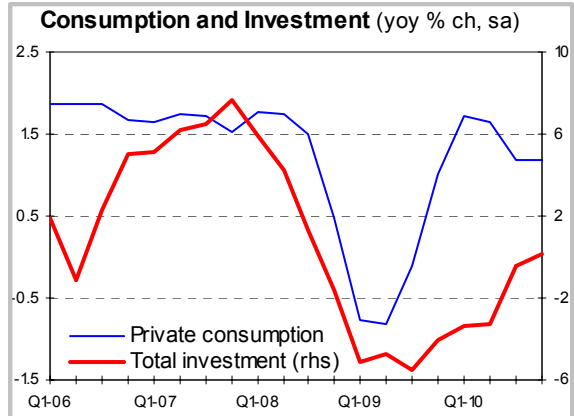
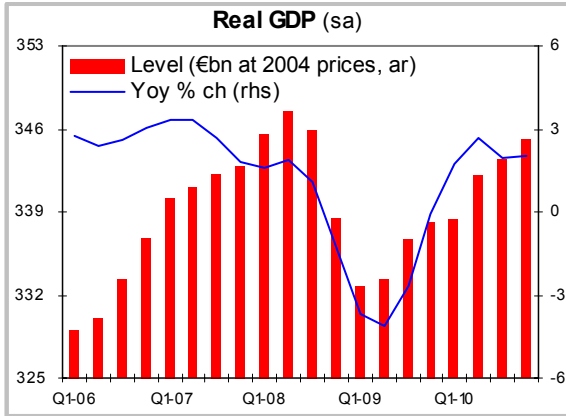
* Average over year; ** % change on 31/12/10

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

- The Belgian economy performed better than the euro area last year also driven by a solidly rebounding German economy. GDP in Q4 10 kept expanding healthily (+0.5% qoq) with domestic demand being the main growth engine. Both private consumption and investment contributed 0.2% to qoq GDP growth. Notably, investment in dwellings edged up for the second consecutive quarter (+0.5% and +0.2% qoq, respectively in Q3 and Q4 10). The recovery in overall investment appears, however, weaker than in previous cycles. A rebound in import and a small contraction in export dragged down overall GDP in Q4 10 although on year average net export added 2.1%.
- The political deadlock following the general elections in June last year is still unresolved with the two Flemish and Francophone communities unable to reach an agreement and form a new government. Most recently, a negotiator has been named by the king in order to prepare the ground for constitutional reforms acceptable to the main political parties, a pre-condition for forming a new government.
- Despite the confused political environment, and the uncertainties related to the future constitutional setting of Belgium, confidence levels are on the upside. Households' increased optimism has been propped up also by a gradually improving labour market. The unemployment rate fell to 8% in January down from a peak of 8.5% in July 2010.
- Business confidence has been buoyed in recent months by rising order books (including export books) and perceived favourable industrial production trends which is rapidly increasing the level of capacity utilisation (back to 81.6% in Q1 11, the higher level since Q1 09) although firms are more prudent as for future production.
- Also the National Bank of Belgium leading indicator has kept on increasing in recent months reaching its highest level since early 2007 and pointing to robust economic expansion in the very short term mainly thanks to continuing healthy conditions in Germany.
- Inflation is accelerating and was at 3.5% in February (slightly retreating from January's 3.7%), significantly higher than the euro area average because of the stronger impact of oil prices on Belgian inflation. Given the local wage adjustment mechanism a knock on effect on wages is in the pipeline starting in April.
- Last year the deficit to GDP ratio is estimated to have fallen to 4.6% (from 6% in 2009). However, given that the debt to GDP ratio is approaching 100% and the political impasse could hamper fiscal consolidation, the budget position of Belgium cannot be considered devoid of risks.

n. 1 - April, 6th 2011

BELGIUM



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

ITALY

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	-1.3	-5.2	1.2	1.5 Q4
Industrial Production	-3.2	-18.4	5.5	-1.5 Jan**
Construction Investment (wda)	-3.0	-8.6	-3.7	-1.8 Q4
Consumer Prices - Harmonised Index***	3.5	0.8	1.6	2.6 Mar
Producer Prices***	5.0	-4.7	3.0	5.3 Feb
Hourly Rates - Industry***	3.4	3.2	2.8	2.8 Feb
Standardised Unemployment Rate (%)	6.8	7.8	8.5	8.4 Feb
Current Account Balance (€bn)	-46.0	-31.7		-43.8 Q3°
as a percentage of GDP	-2.9	-2.1		-2.8
Real Effective Exchange Rate Index§	101.1	102.0	97.9	97.1 Feb

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

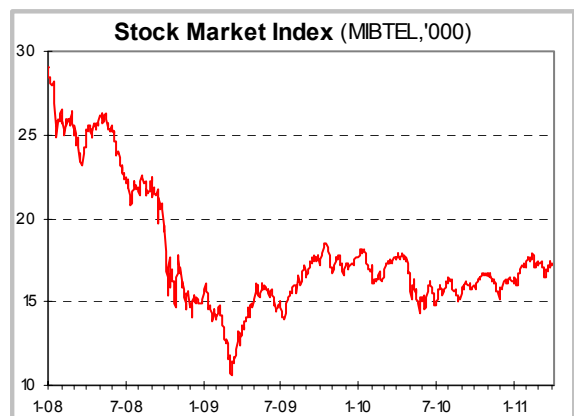
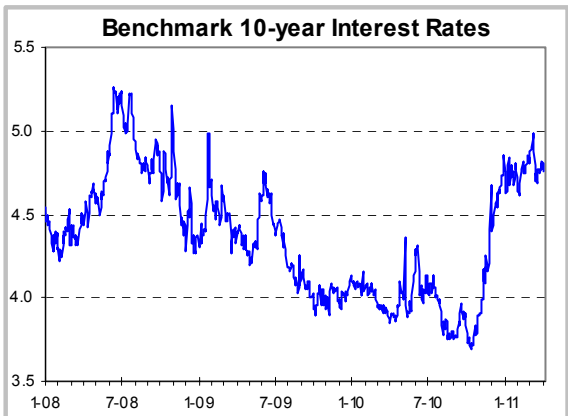
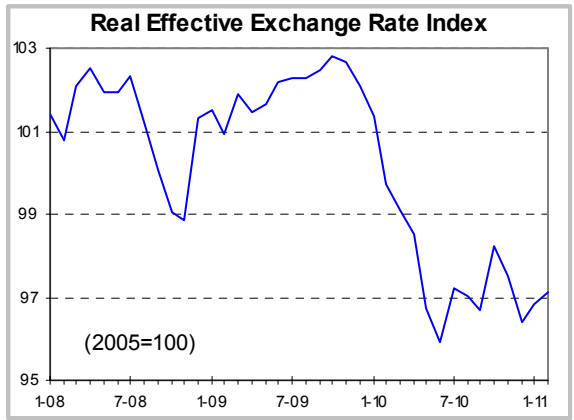
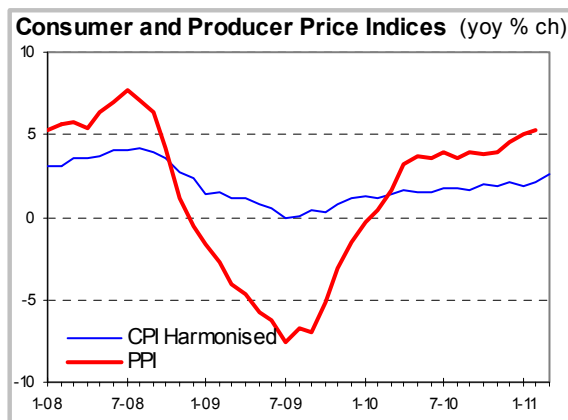
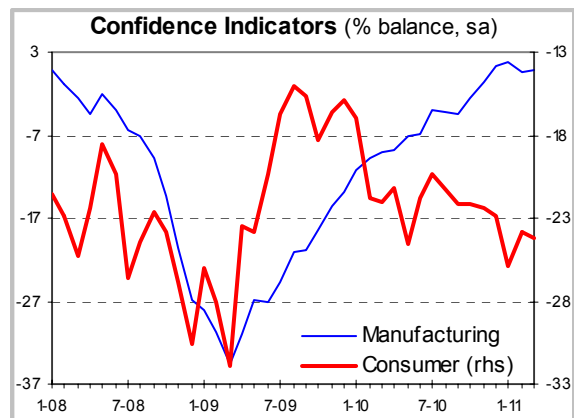
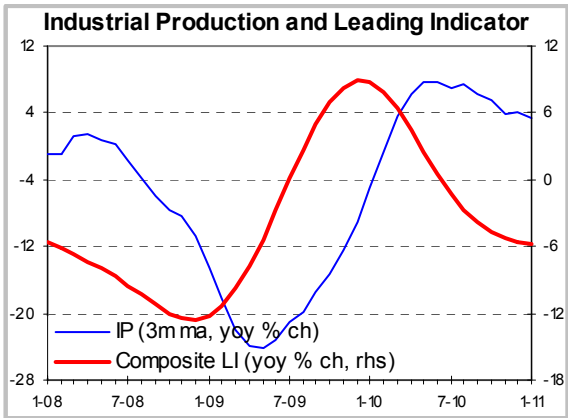
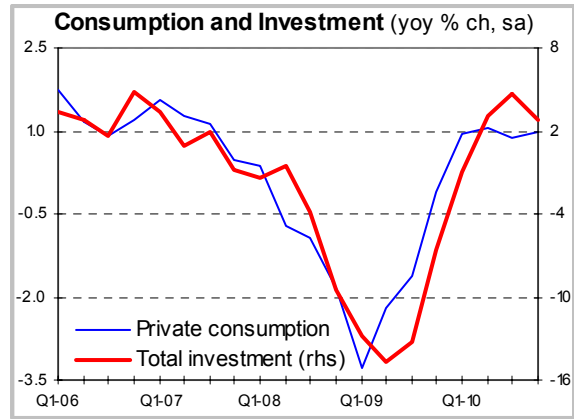
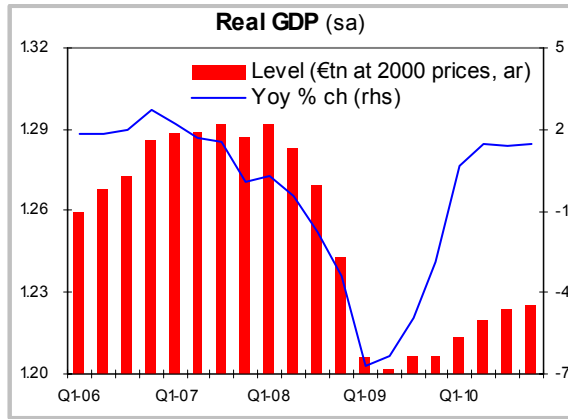
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	4.64	1.22	0.81	1.09 Feb
Long Term Interest Rate pa (benchmark 10y)	4.68	4.31	4.04	4.74 Feb
Stock Exchange (MIBTEL) Index (% ch)*	-30.6	-29.6	5.0	6.6 04/04/11**

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

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

- The economy performed worse than expected in Q4 10 decelerating to 0.1% qoq from the previous quarter 0.3%. Domestic demand dynamics was mixed in Q4 10 as private consumption expanded by 0.3% qoq (albeit slightly decelerating from Q3 10), while overall investment fell by 0.7% qoq primarily due to the 1.3% qoq drop in construction.
- The largest contribution to overall growth came from inventories which added 1.1% qoq in Q4 10. Given that according to business surveys there is no evidence of a building up of unwanted inventories, and given modest industrial trends in the final months of 2010, this should be interpreted simply as a fast restocking after large draw-downs in previous quarters.
- The recovery in export over the year was overcome by the jump in import (also driven by stock rebuilding), hence net export dragged 0.5% to GDP growth in 2010 (and a large 0.9% qoq in Q4).
- Industrial production was much weaker than expected in January (-1.5% mom). The contraction was particularly strong in consumer goods (particularly non-durable goods, for which demand kept falling in Q4 10) and energy output. This comes somewhat at odds with relatively upbeat business sentiment indicators around the year-end. In fact, the latest surveys show that confidence after having stopped improving has also marginally declined. Looking in the details, the assessment of order books has stabilised in recent months with the export component somewhat deteriorated. The latter can also be observed in hard order books data (-4.5% Nov 10-Jan 11 on the previous three months for export orders, 0.3% for internal orders).
- The labour market remains sluggish. The latest employment survey referring to February reports an increase in the number of employees by 17.000 units which has brought down the unemployment rate to 8.4% from 8.6% in January although this is also the result of discouraged workers exiting the labour force.
- Overall, economic conditions remain weak. Private demand is failing to gather momentum due to unfavourable labour market conditions and expectations, low consumer confidence, tighter credit conditions, creeping inflation, and a strict fiscal conduct. In addition, from a competitive point of view, there are indications that unit labour costs and productivity are not adjusting sufficiently to regain ground in the global competition.
- On the positive, the government managed to reduce the deficit to GDP ratio to 4.5% in 2010 (from 5.3% in 2009), in the wake of both higher revenues (+0.9%) and lower spending (-0.5%).

ITALY



Sources: OECD, ISTAT, BIS, daily press

SPAIN

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	0.9	-3.7	-0.1	0.6 Q4
Industrial Production	-7.3	-15.8	0.8	1.4 Jan**
Construction Investment (wda)	-5.9	-11.9	-11.1	-10.6 Q4
Consumer Prices - Harmonised Index***	4.1	-0.2	2.0	3.3 Mar
Producer Prices - Manufacturing***	6.5	-3.4	3.2	7.6 Feb
Hourly Earnings***	4.8	5.0	1.3	-2.6 Q4
Standardised Unemployment Rate (%)	11.4	18.0	20.1	20.5 Feb
Current Account Balance (€bn)	-106.0	-58.3		-51.9 Q3°
as a percentage of GDP	-9.7	-5.5		-4.9
Real Effective Exchange Rate Index [§]	104.8	104.6	101.5	100.9 Feb

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

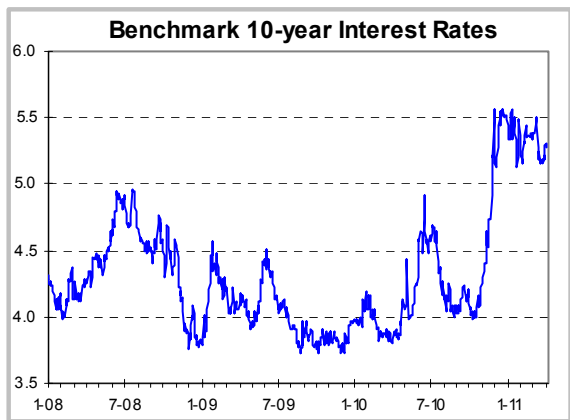
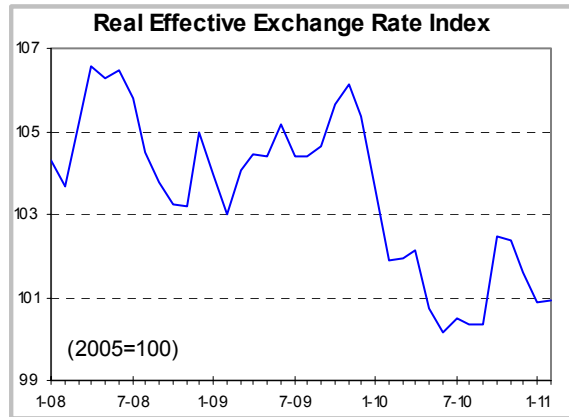
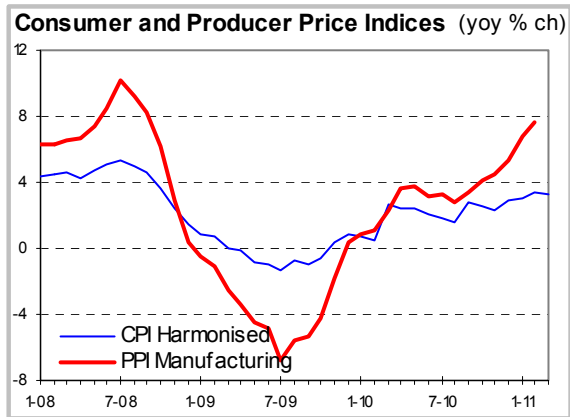
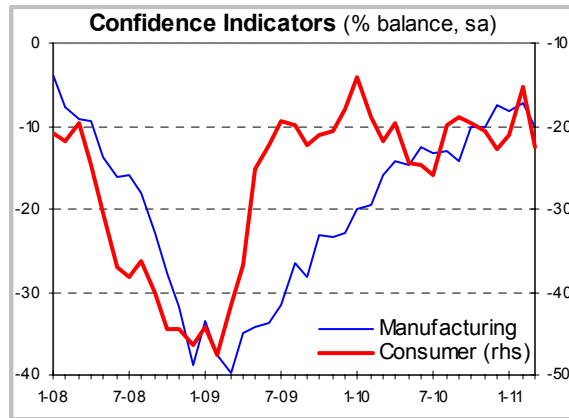
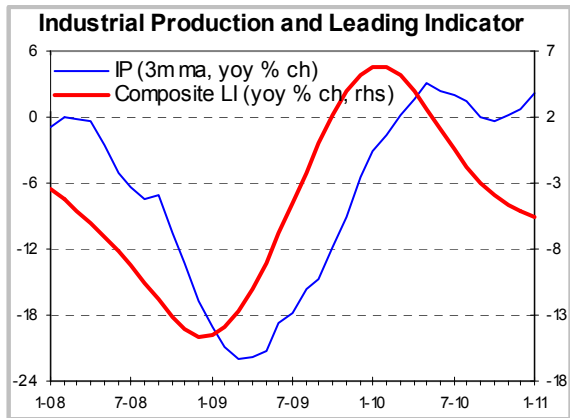
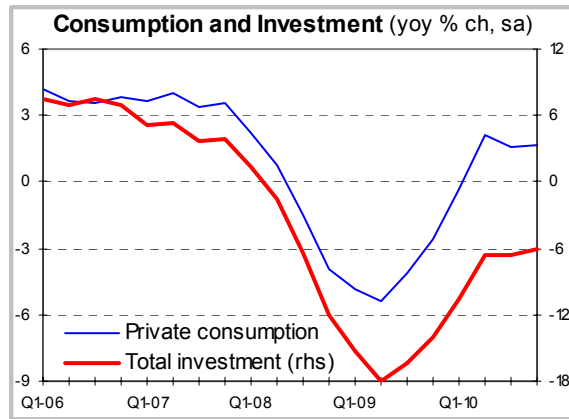
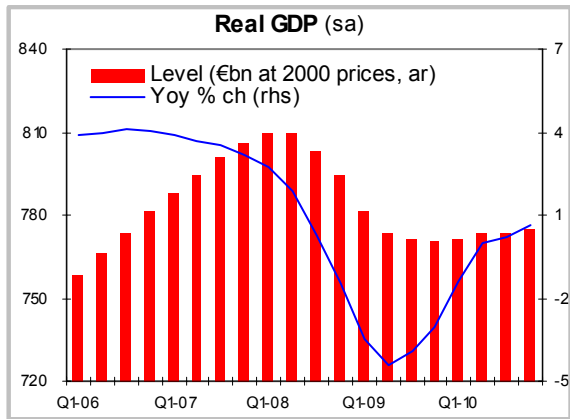
Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	4.64	1.22	0.81	1.09 Feb
Long Term Interest Rate pa (benchmark 10y)	4.36	3.97	4.25	5.26 Feb
Stock Exchange (MSE) Index (% ch)*	-21.6	-18.3	3.1	9.3 04/04/11**

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

Sources: OECD, INE, BIS, daily press

- The Spanish economy expanded by a mild 0.2% qoq in Q4 10 as private consumption returned in positive territory (+0.3% following -1% qoq in Q3 10). Reflecting the government efforts to rein in the fiscal deficit public consumption continued to contract while construction remained mired in recession. Investment in equipment goods edged up by 1.2% qoq following a sharp drop in Q3 (-5% qoq). On balance, this latter investment component was positive on year average (+1.8%). The weak domestic demand environment in Q4 10 resulted in mild import growth (+1.6% qoq) which, coupled with rebounding export (+3.9% qoq), added 0.5% to overall qoq GDP growth.
- Retail sales dropped in February for the eighth consecutive month signalling that private consumption is still under pressure with households very downbeat about the state of the labour market, rising energy prices and fiscal austerity. The unemployment rate hit a record 20.5% in February, the highest among industrialised countries, and the export oriented manufacturing sector is facing more challenging prospects due to the euro strength.
- Last January, the ratio of “doubtful” loans to total lending rose to 6.1%, the highest level since 1995. Spain’s Achilles’ heel continues to be parts of its troubled banking sector. The Bank of Spain (BoS) and the government are putting pressure on banks to be transparent in their balance sheets, particularly regarding loan-losses, and to reveal the consequent cost of recapitalisation. As a matter of fact, also with a view to reassure investors, in February the government approved by decree some regulatory measures aimed at reforming the banking system and focussed on the regional savings banks (*cajas*). Higher core capital ratios have been imposed as well as recapitalisation strategy plans.
- The BoS calculates that the amount banks need to raise to meet the BoS and the government’s core capital requirements is in the range of €15.2bn while according to Moody’s the recapitalisation need could be much higher and near to €40-50bn. On the back of these concerns regarding the banking sector, Moody’s has recently downgraded Spain’s sovereign credit rating from Aa1 to Aa2 with “negative” outlook. The prospect of a rate hike by the ECB does not bode well for the Spanish economy as not only the vast majority of mortgages are at variable rate, but also the interest burden on the growing public debt would put a brake on a still hesitant recovery.
- Following the EU summit on March, 24/25th, the government has announced that new economic measures to reinforce the budget consolidation process will be introduced including legislative caps on spending and a crackdown on tax evasion. Spain’s target is to narrow its overall public-sector budget deficit from 9.2% in 2010 to 6.0% in 2011, and 3% by 2013.

SPAIN



Sources: OECD, INE, BIS, daily press

GREECE

Real Indicators*	2008	2009	2010	Latest
GDP	1.0	-2.0	-4.5	-6.6 Q4
Industrial Production	-0.3	-9.7	-6.0	0.8 Dec**
Construction Investment	-18.9	-12.5	-13.1	10.8 Q4
Consumer Prices – Harmonised Index***	4.2	1.3	4.7	4.2 Feb
Producer Prices – Manufacturing***	8.8	-6.8	7.4	8.5 Feb
Standardised Unemployment Rate (%)	7.7	9.5	12.6	14.2 Q4
Current Account Balance (€bn) ***	-34.8	-25.8	-24.0	-24.0 Q4°
as a percentage of GDP	-14.7	-11.0	-10.4	-10.4
Real Effective Exchange Rate Index [§]	104.2	105.7	105.1	103.0 Feb

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q4 included; § 2005=100

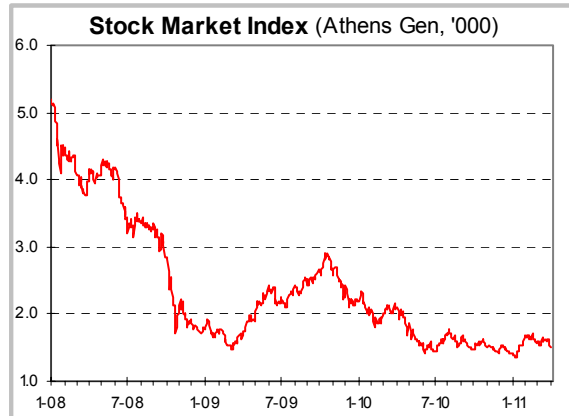
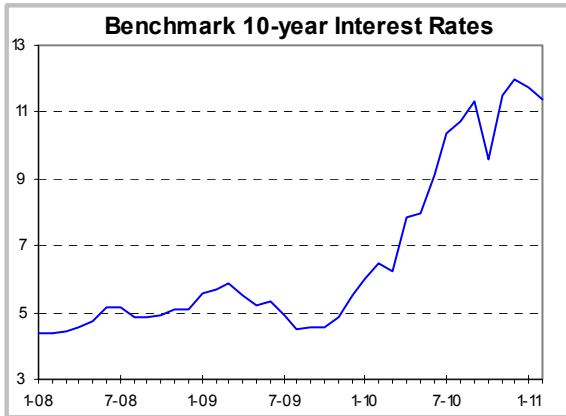
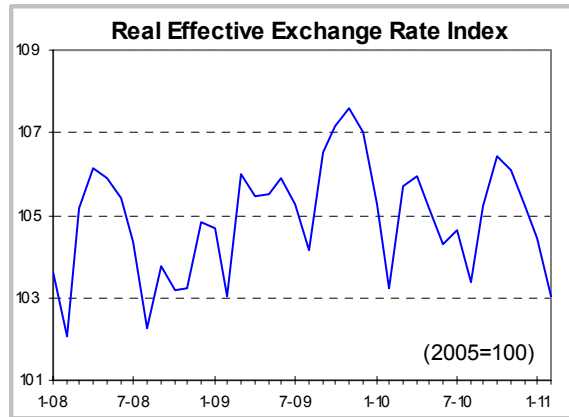
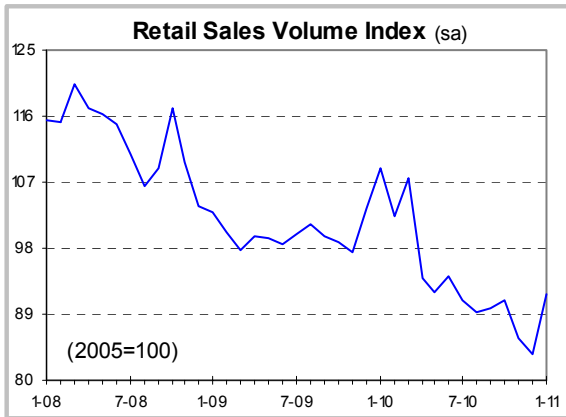
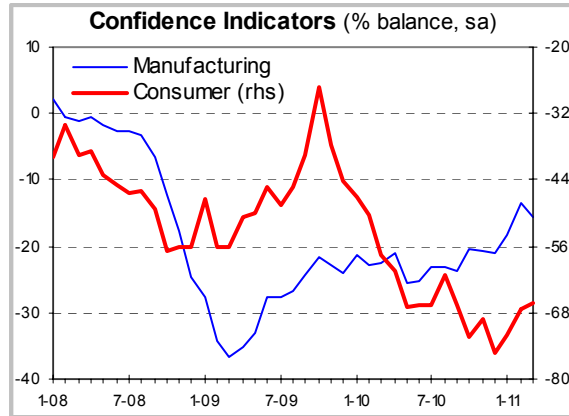
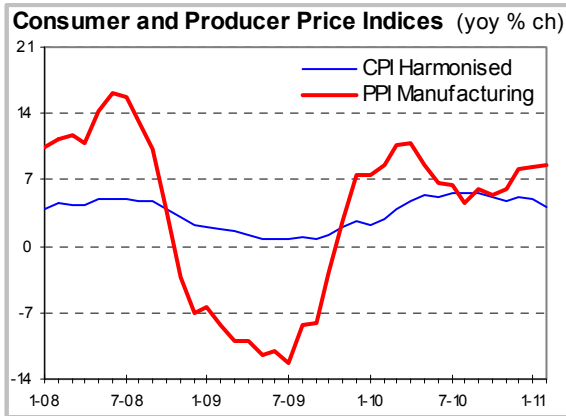
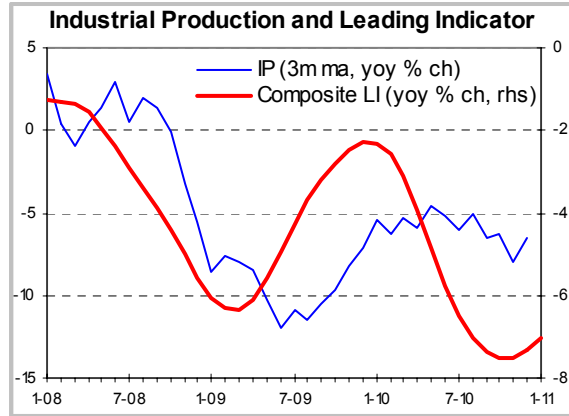
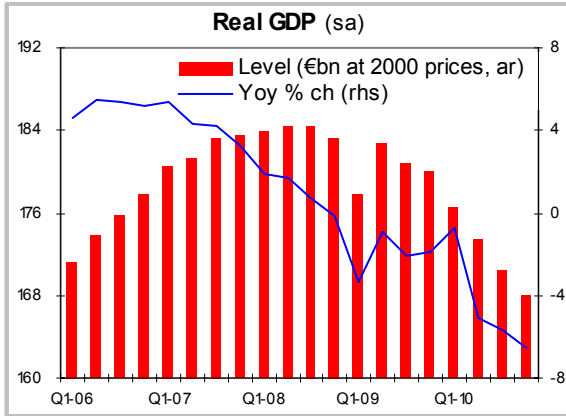
Financial Indicators				
Short Term Interest Rate pa	4.64	1.22	0.81	1.09 Feb
Long Term Interest Rate pa (benchmark 10y)	4.80	5.17	9.09	11.40 Feb
Stock Exchange (ASE) Index (% ch)*	-30.3	-36.1	-21.6	5.6 04/04/11**

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

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

- Having to endure a harsh fiscal austerity plan the Greek economy remains mired in deep recession. GDP continued to plunge in Q4 10 by 1.4% qoq so that the average 2010 result was a dismal -4.5%. According to provisional national accounts data, all demand components kept declining with private consumption falling by 8.6% yoy, public spending by 1.9% yoy and investment by 7.6% yoy. Export boomed (+12.8% yoy) – and early trade indicators for this year signal continuing strength also in January – while import was again negative.
- On all accounts, the economy is facing negative headwinds. Confidence is low, the unemployment rate is at record high (14.2% in Q4 10, it was 10.2% a year earlier), fiscal tightness will continue and credit conditions remain strict.
- On the positive, however, manufacturing prospects should somewhat improve given the recovery in export. Manufacturing surveys show some improvement in sentiment stemming primarily by ongoing positive production trends and increasing order books, particularly export ones. In addition, inflation decelerated sharply in February, from 4.9% in January and 5.2% in December to 4.2%, although in perspective exogenous inflationary pressures will persist also given the impact of higher indirect taxes on certain goods.
- The tourist sector was negatively affected by protest demonstrations that took place in Athens in H1 and Q4 10. International tourist revenues fell by 7.6% in 2010 (following -10.6% in 2009), which is a particularly disappointing result given the healthy growth in world tourism last year.
- An impressive fiscal adjustment has been achieved in 2010, with the deficit to GDP ratio brought down to 9.4% from the previous year 15.4% and the target for 2011 being 7.4%. The government has also been implementing an extensive program of structural reforms, including the pension system and the labour market.
- Despite the above efforts, financial market's confidence on Greece remains shaky. A string of downgrading actions from the major rating agencies - the latest on March, 29th by Standard&Poors on the wake of the EU summit the week earlier - have brought Greece's sovereign status even lower (note that it has been downgraded to non investment grade already around a year ago) as analysts believe that a restructuring of the public debt is unavoidable and that also Greece, together with Portugal, will finally resort to the European Stability Mechanism for funding. These downgradings are likely to trigger further widening in yield and CDS spreads.

GREECE



Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2008	2009	2010	Latest
GDP (wda)	6.2	-5.5	0.2	2.8 Q4
Gross Fixed Capital Investment (wda)	21.9	-17.6	-16.5	4.7 Q4
Industrial Production – Manufacturing	0.7	-22.4	3.9	17.1 Jan
Consumer Prices – Harmonised Index	12.0	2.5	3.0	4.6 Feb
Producer Prices – Manufacturing	13.1	-9.1	8.4	13.1 Feb
Unemployment Rate (%)	6.3	7.6	9.5	9.8 Feb
Current Account Balance (US\$bn)	-12.6	-4.3	-0.6	-0.6 Q4°
as a percentage of GDP	-23.0	-8.9	-1.0	-1.0
Real Effective Exchange Rate Index [§]	120.4	125.2	121.2	124.1 Feb

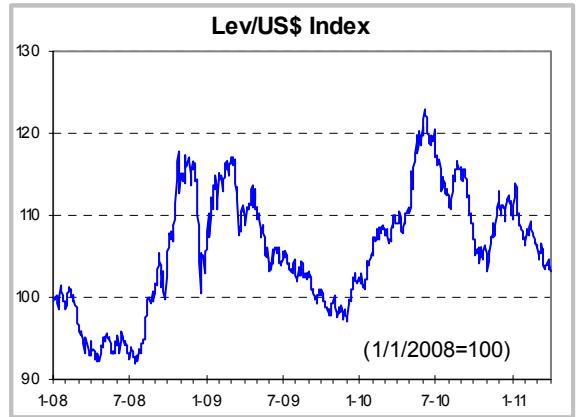
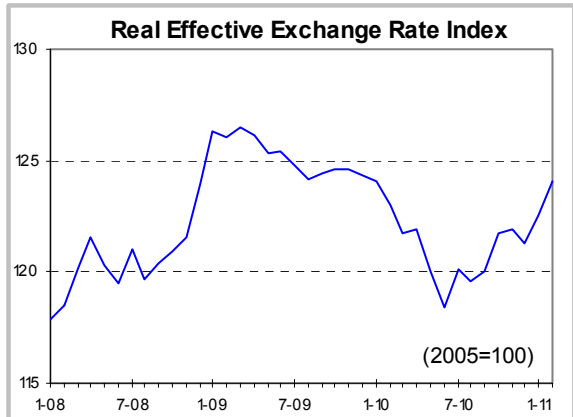
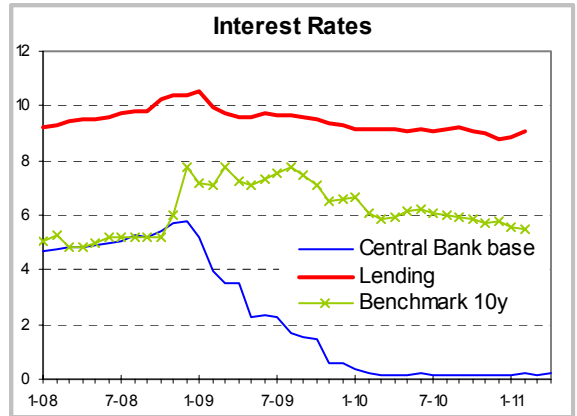
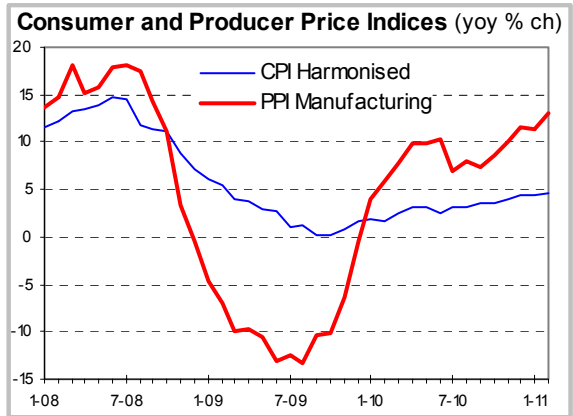
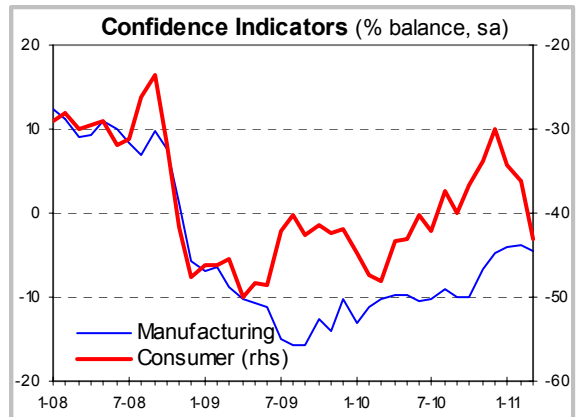
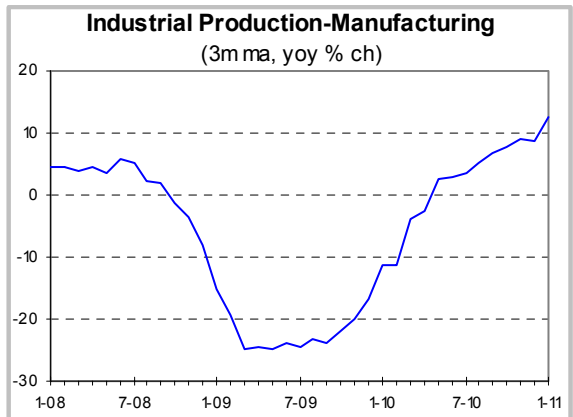
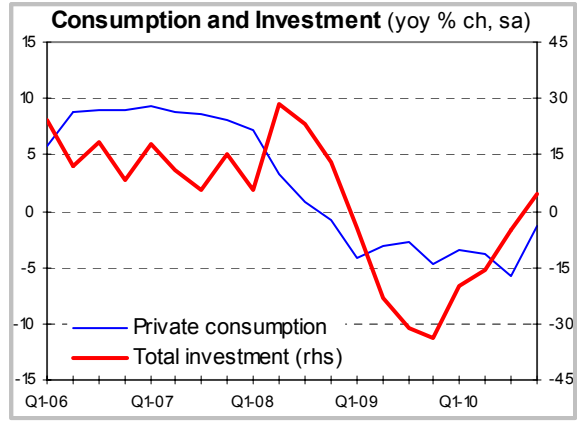
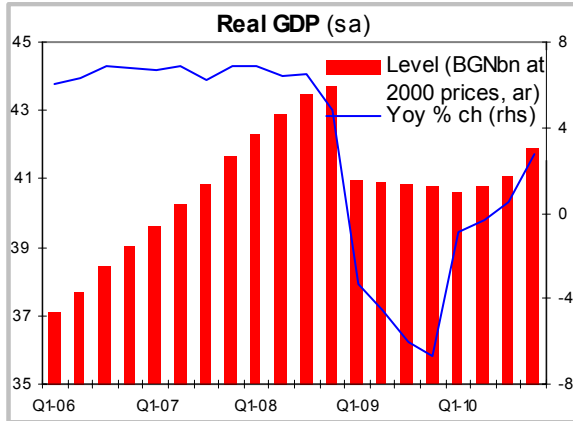
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q4 included; § 2005=100

Financial Indicators				
Short Term Interest Rate pa (sofibor o/n)	5.3	2.2	0.4	0.5 Feb
Short Term Interest Rate pa (sofibor 3m)	7.1	5.7	4.1	3.9 Feb
Long Term Interest Rate pa (benchmark 10y)	5.4	7.2	6.0	5.5 Feb

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

- The Bulgarian economy grew by a robust 2.1% qoq in Q4 10 following lacklustre performances in the previous two quarters with the full year result out of negative territory but still very weak at 0.2%. On the positive side, growth was finally led by domestic demand as both private consumption and investment were up 1.2% and 6.5% qoq, respectively, while public spending continued to be sharply retrenched (-6.3% qoq) in order to rein in the deficit. A positive contribution to growth is also estimated to have come from inventories.
- Net exports dragged down growth significantly (by an estimated 6.2% qoq) as a result of a dramatic deceleration in export dynamics (down to 0.8% qoq from the previous quarter robust 8.9% qoq) and a surge in import (+9.1% qoq up from -1.3% qoq in Q3 10) the latter reflecting the rebound in investment activity. In perspective, exports are set to keep slowing down in response to the weakening European markets which in turn reflects the unfolding of fiscal austerity measures. Over the whole 2010, trade development have resulted in a very small current account deficit which shrank to 1.0% of GDP last year down from the record 25.2% in 2007. Foreign direct investment flows, however, continued to fall in 2010 (by 32%, following a -64% in 2009).
- Looking at sector activity, agriculture fell by 6.9% qoq while both industry and construction posted positive growth numbers (+5.9% and +10% qoq, respectively). Construction appears to be recovering in the infrastructure sector and not in the residential one thanks to increased government focus on infrastructure and improving absorption of EU funds. On yoy comparison, however, growth in construction value added was largely negative (-11.8% yoy in Q4 10).
- The rebound in export last year propped up manufacturing production. The economic recovery remains, however, still weak and confidence indicators, after rebounding in 2010, appear to be stalling as for business sentiment and falling for consumers. The latter is held back by high inflation and negative labour markets developments. The latest data show a sharp rise in the unemployment rate (11.2% in Q4 10 up from the previous quarter 9.5%). Prospects for a sustained recovery in consumption are thus depressed by a weak labour market in addition to the ongoing fiscal austerity stance, tight credit condition, and rising inflation.
- Inflation is trending up rapidly, due to high food and energy prices, and is particularly hitting the poorest section of the population. As a matter of fact, social discontent is rising which erupted in street protest in recent months. In brief, inflation is threatening the recovery in consumption as real households incomes are squeezed and more people is pushed below the poverty line.

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	5.7 Q4
Construction Production (Gross Value Added)	11.8	14.2	12.9	12.6 Q4
Consumer Prices	18.3	11.8	11.3	10.7 Feb
Producer Prices**	21.3	-5.6	12.7	16.8 Feb
Unemployment Rate (%)	8.7	9.4	9.0	8.9 Q4
Current Account Balance (US\$bn)	-1.3	-3.2	-4.4	-4.4 Q4°
as a percentage of GDP	-0.5	-1.6	-1.9	-1.9
Real Effective Exchange Rate Index [§]	78.0	87.3	96.0	94.8 Feb

* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; **new series; ° latest 12 months up to Q4 included; § 2000=100, new series

Financial Indicators

Short Term Interest Rate pa (overnight)	10.3	9.5	8.3	8.7 Feb
Short Term Interest Rate pa (91 days T-Bill)	9.3	10.3	9.6	10.6 Feb
Stock Exchange (HERMES) Index (% ch)*	8.7	-32.8	18.2	-6.1 04/04/11**

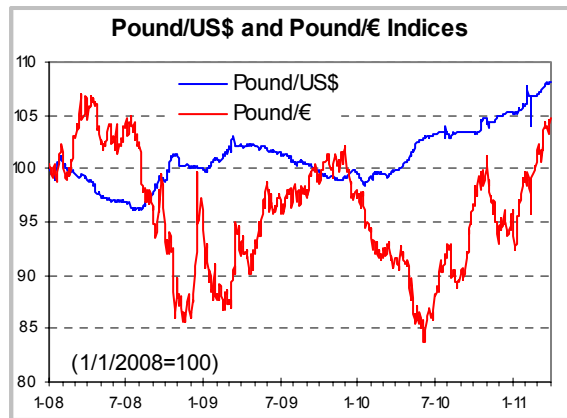
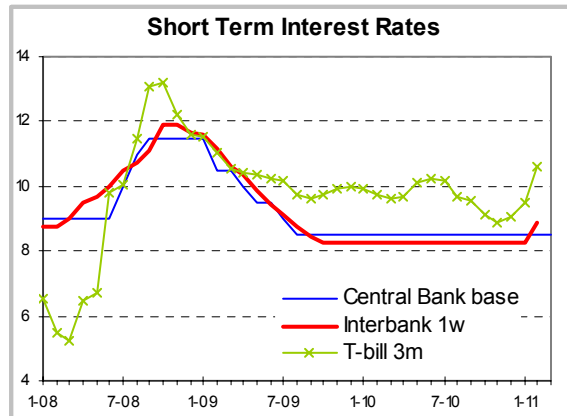
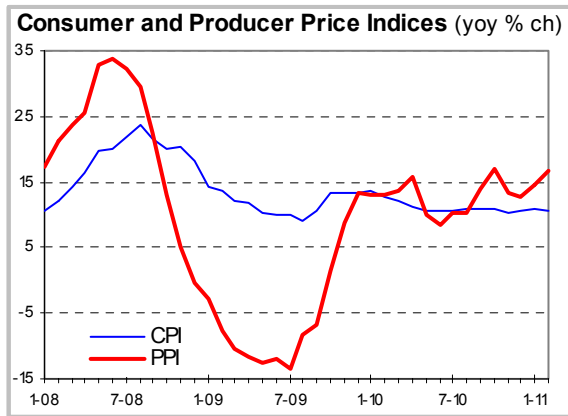
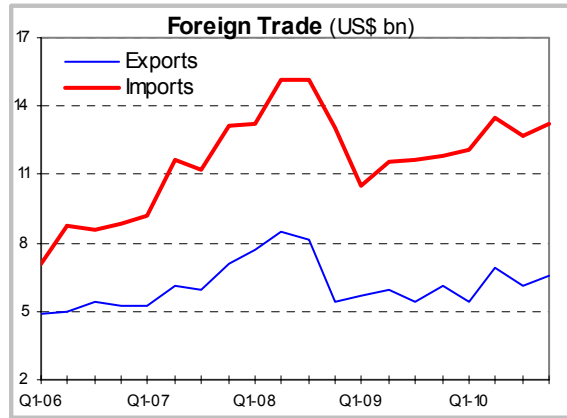
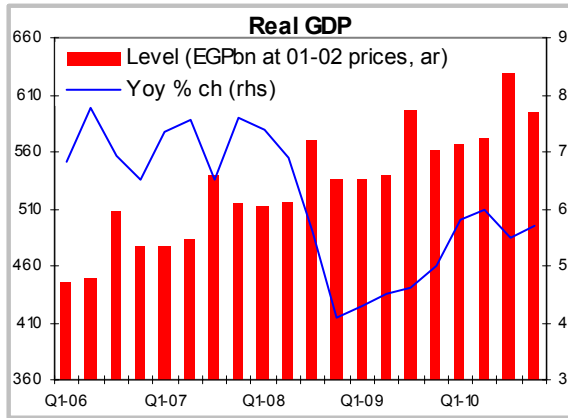
* Average over year; ** % change on 31/12/10

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

- Following mass protests President Mubarak stepped down on February, 11th. Since then, the military has been effectively ruling the country stating it will oversee a transition period of six months leading in the end to new presidential elections. The constitution has been suspended, the parliament dissolved and constitutional amendments have been drafted and already approved by referendum in mid-March. The next steps are parliamentary elections in June.
- The political setting remains uncertain but as for the economic policy conduct it is relatively safe to assume that the interim government is likely to keep on hold fiscal consolidation and plans for further reform and liberalisation. In fact, the budget deficit is set to widen to an estimated 10-11% of GDP given lower revenues and higher spending, particularly on subsidies. In addition, a further stimulus package has been announced.
- While the economy was proceeding at a relatively healthy pace before the revolution, it is now too early to assess the quantitative economic impact of the crisis. For sure, hundred of thousands tourists fled the country pointing to a significant drop in tourism revenues at least in the short term. Tourism accounts for an estimated 6% of GDP (for some analysts even 11%) and one in eight Egyptian workers is involved in the industry.
- It is reasonable to assume that both consumption and investment as well as export and import will drop in the short term. Inflation data for February appear not to have incorporated any effect of the revolt although given high oil and food prices and a weakening pound inflation is set to accelerate.
- Suez Canal revenues dropped by 6.7% mom in February, following a 1.6% fall in January, although on an annual basis receipts were 16.3% higher. Egyptian officials declare that activity at the Canal has not been impacted by the political turmoil while the Suez Canal Authority denies that traffic has been disrupted by the recent strike by canal workers. The January-February declines have thus been attributed to seasonal effects by some analysts.
- A number of strikes erupted following Mubarak resignation calling for higher wages and also, in some cases, for better management. The government has thus agreed to increase public sector wages by 15% starting from April and also many private companies have had to abide such requests. There are thus two main challenges to the restoration of normal economic activity: one is the risk of further strikes, the other is related to the knock on effect of higher wages on inflation.
- After almost two months the Egyptian stock exchange reopened on March 23rd. Not surprisingly large losses were immediately recorded, but the index is now rebounding. Meanwhile, the pound weakened only about 2.7% since early January mainly because of Central Bank's interventions.

n. 1 - April, 6th 2011

EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2008	2009	2010	Latest
GDP	5.6	4.9	3.3	2.8 Q4
Construction Production (Gross Value Added)	9.4	3.4	1.2	-1.6 Q4
Industrial Production	2.2	0.3	2.0	2.9 Q4
Consumer Prices	3.9	1.0	1.0	2.0 Feb
Producer Prices – Manufacturing	18.0	-15.1	6.4	14.1 Feb
Urban Unemployment Rate (%)	14.7	13.8	13.7	13.7 Q4
Current Account Balance (US\$bn)	-4.6	-4.5		-5.4 Q3°
as a percentage of GDP	-5.2	-5.0		-6.3
Real Effective Exchange Rate Index [§]	100.1	102.5	98.6	97.6 Jan

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

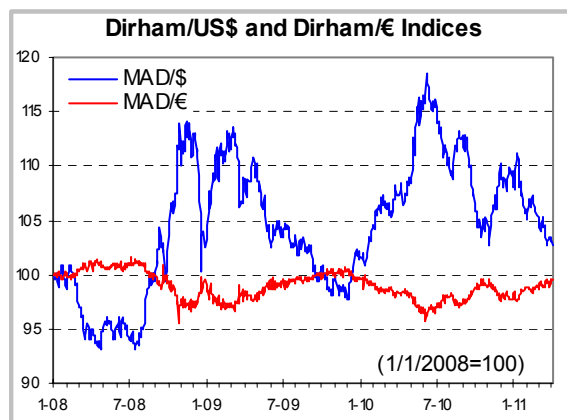
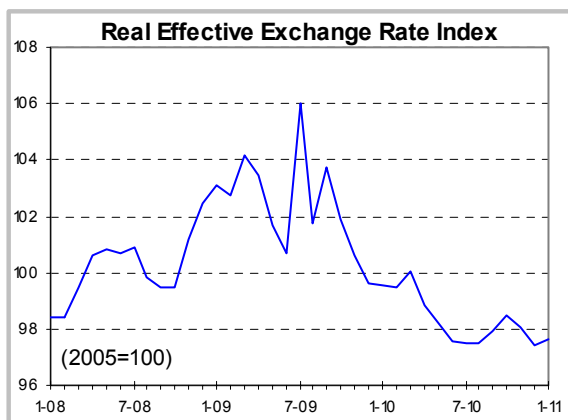
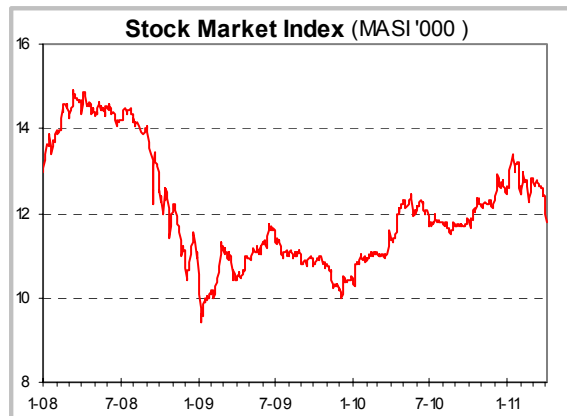
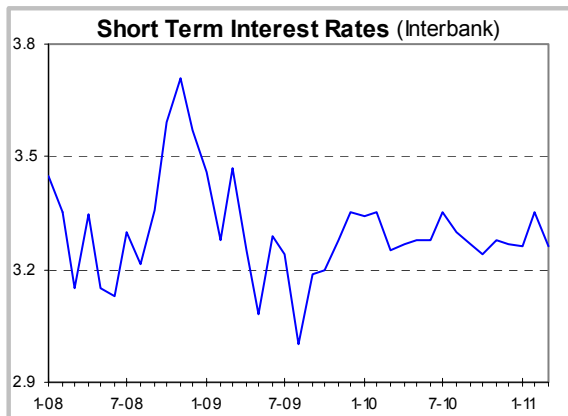
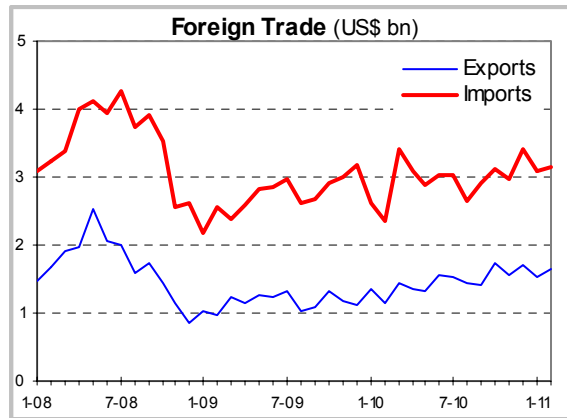
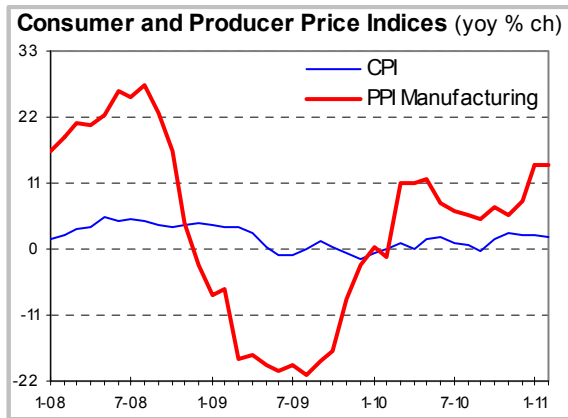
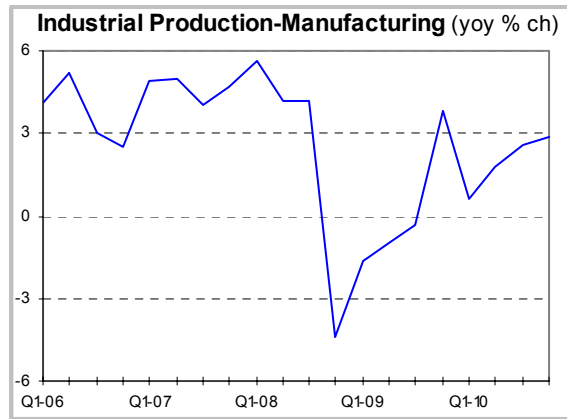
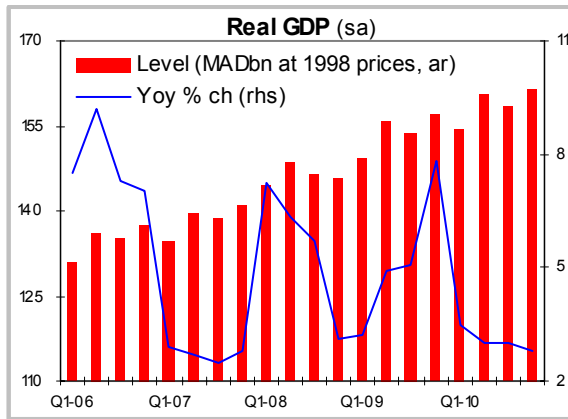
Financial Indicators				
Short Term Interest Rate pa	3.4	3.3	3.3	3.3 Mar
Stock Exchange (MASI) Index (% ch)*	14.4	-20.4	9.2	-6.9 04/04/11**

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

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

- According to the High Planning Commission (HCP) real GDP growth slowed to 3.3% in 2010 primarily due to a bad agriculture outcome in turn affected by adverse weather conditions. The 2009-10 season has yielded a cereal harvest down by over 25% the previous year bumper crop (although performing still above the five year average).
- The agriculture season 2010-11 appears to be starting on a positive footing as rainfalls have so far been abundant and well spread with the global filling rate of dams at a reassuring 86%. In addition, satellite monitoring shows a good advancement stage of plantations.
- Manufacturing production recovered last year and grew by 2.9% yoy in Q4 10. Recent business surveys signal that moderate expansion is expected in the current quarter but overall 2011 prospects will likely suffer from some softening in key European markets. Notably, high international commodity prices are strongly benefiting export of phosphates and derivatives.
- The Central Bank has so far maintained its policy rate stable as no real inflationary threat has emerged. In fact, the latest mom figure for February accelerated to 0.8% (up from the previous 0.2%) reflecting oil price pressures. However, inflation is not expected to spiral on the back of the extensive subsidisation policy by the government, particularly at social unrest times.
- The budget law forecasts a reduction in the deficit to GDP ratio from the estimated 4% in 2010 to 3.5% in 2011 with total debt going up to almost 50% of GDP. A small contraction in current expenditures is envisaged while the focus on infrastructure, social housing, rural development is reinforced. Following recent social unrest, subsidy spending is now set to double in 2011 to an estimated 3.8% of GDP. Minimising social risk rather than boosting economic development is the likely priority for the government so that some spending re-allocation will occur.
- Protests last February calling on the king to give up some of his powers did not result in full-blown revolts like in other North-African countries also because it appears that the king himself remains widely well respected. The king announced in early March the setting up of a committee which will draft a new constitution by June to be then subject to referendum.
- The ongoing regional developments are certainly going to impact on the Moroccan economy as external balances will come under pressures. On the one hand, higher energy prices will weigh on the import bill. On the other hand, the tourist sector, which up until the eruption of the crisis had been staging a healthy recovery, will suffer from political instability for some time although at a far lesser extent than in Egypt. As a result, the current account deficit will continue to widen.

MOROCCO



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

TURKEY

Real Indicators*	2008	2009	2010	Latest
GDP**	0.7	-4.8	8.9	9.2 Q4
Industrial Production**	-0.6	-9.9	13.1	13.3 Dec***
Construction Investment	-6.9	-14.7	16.9	18.0 Q4
Consumer Prices	10.4	6.3	8.6	4.0 Mar
Producer Prices – Manufacturing	11.8	-0.6	6.0	10.5 Mar
Standardised Unemployment Rate (%)	11.0	14.0	11.9	11.4 Dec
Current Account Balance (US\$bn)**	-42.0	-14.0	-48.6	-48.6 Q4°
as a percentage of GDP	-5.7	-2.3	-6.6	-6.6
Real Effective Exchange Rate Index [§]	108.8	102.0	112.8	104.5 Feb

* yoy % ch, nsa, unless otherwise indicated; ** sa; *** mom % ch ; ° latest 12 months up to Q4 included; § 2005=100

Financial Indicators

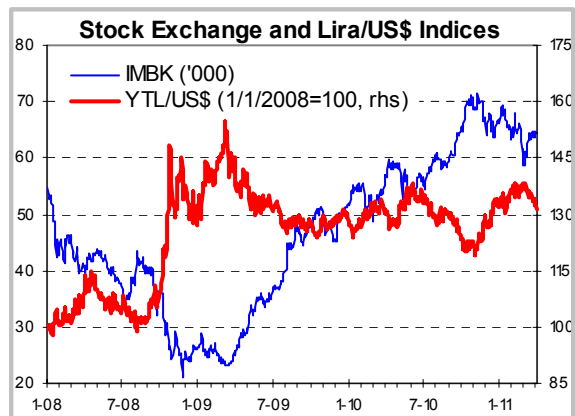
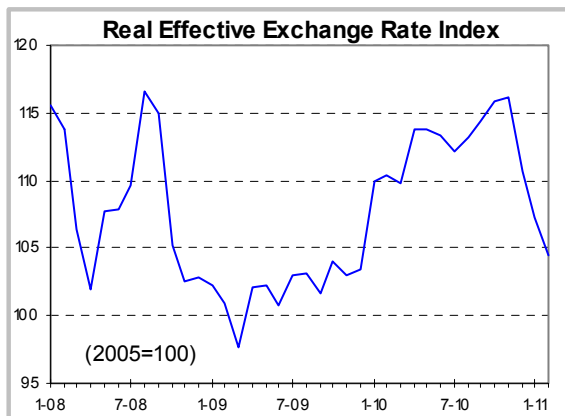
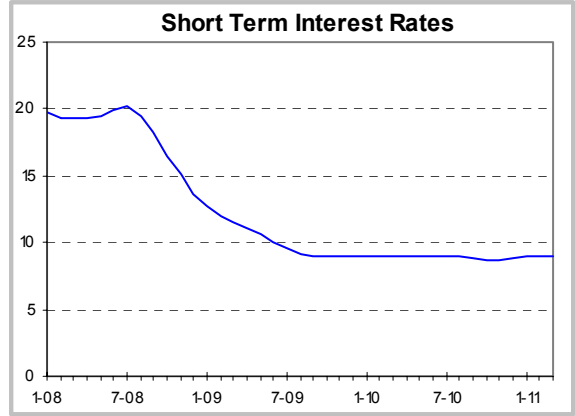
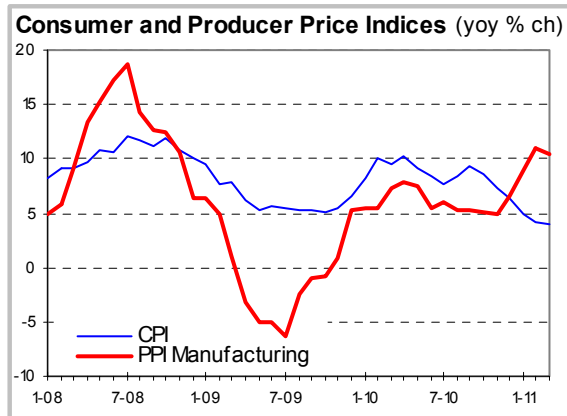
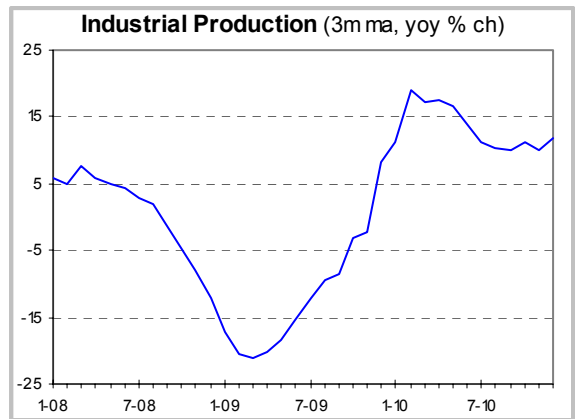
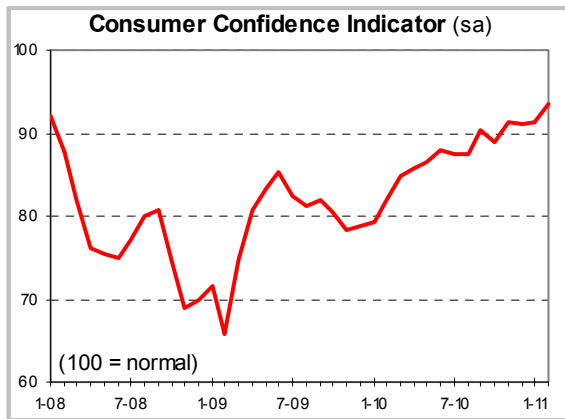
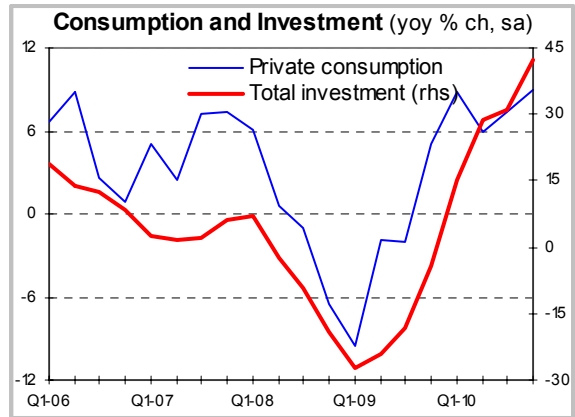
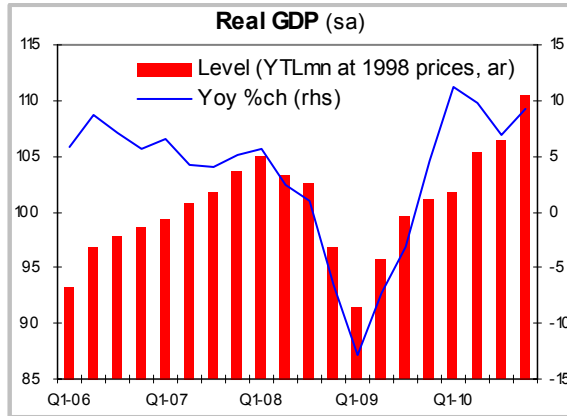
Short Term Interest Rate pa (lending)	18.36	10.21	8.94	9.00 Mar
Stock Exchange (IMBK) Index (% ch)*	-21.9	-0.2	58.4	2.4 04/04/11**

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

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

- The Turkish economy performed robustly in Q4 10 and GDP growth accelerated to a brilliant 9.2% yoy (+3.6% qoq). Both consumption and investment expanded buoyantly (+9% and +42.1% yoy, respectively). The healthy domestic demand pushed up import which soared by 25.4% yoy while export recovered mildly from the previous quarter drop.
- Although the unemployment rate remained high at 11.4% by end-2010 labour market developments have been favourable last year. Not only the total number of unemployed has fallen but also the participation rate has increased implying a rise in job posts (the number of employees rose by about 1.2mn units between end-2009 and end-2010).
- Consumer confidence keeps improving and is now approaching the 100 point threshold splitting a pessimistic outlook from an optimistic one. Several factors support consumer confidence: the improving labour market, still low real interest rates, healthy domestic credit (despite the Central Bank efforts), and record low inflation. Manufacturing production has somewhat slowed down but remains strong while business surveys continue to be positively oriented.
- March's reading in the consumer price index was exceptionally low (+4.0% the lowest in four decades). The disinflation efforts is, however, going to be much harder in the coming months as favourable base effects wane and, most importantly, given the ongoing high prices environment for food and energy.
- Since late in 2010, the Central Bank has pursued a new monetary mix combining lower policy interest rates, which should discourage the inflow of foreign capital and stem pressure on the *lira*, with higher reserve requirements, which in turn should drain liquidity from domestic markets. Hence, after lowering the policy rate (the one-week repo rate) in December and January to 6.25%, at it latest meeting the Central Bank held the policy rate stable but continued to raise reserve requirement ratios. In total, the higher ratios are aimed at withdrawing 19.1bn lira from the market.
- The *lira* has lost about 14% between the beginning of November and early March, but has recently resumed an appreciation trend. Due to booming merchandise import the current account deficit deteriorated significantly last year widening to 6.6% of GDP in 2010 as a whole, which highlights the resurfacing of a traditional vulnerability for the Turkish economy.

TURKEY



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

THAILAND

Real Indicators*	2008	2009	2010	Latest
GDP	2.5	-2.3	7.8	3.9 Q4
Industrial Production – Manufacturing	4.0	-7.3	14.5	-1.9 Feb**
Construction Investment	-4.2	0.4	6.8	6.5 Q4
Consumer Prices***	5.5	-0.8	3.3	3.2 Mar
Producer Prices***	12.4	-3.8	9.4	5.9 Mar
Unemployment Rate (%)***	1.4	1.5	1.0	0.7 Dec
Current Account Balance (US\$bn)	2.2	21.9	14.8	14.8 Q4°
as a percentage of GDP	0.7	8.3	4.6	4.6
Real Effective Exchange Rate Index [§]	114.5	111.4	117.8	116.8 Feb

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q4 included; § 2005=100

Financial Indicators

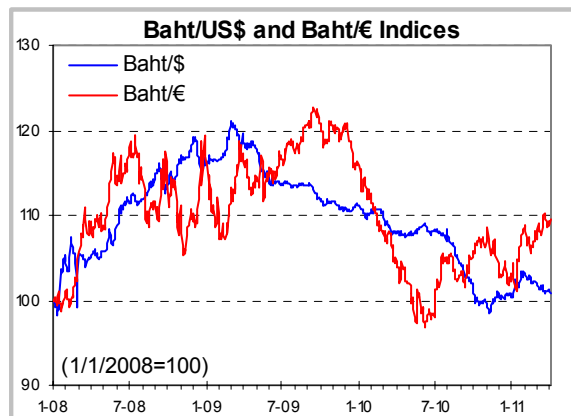
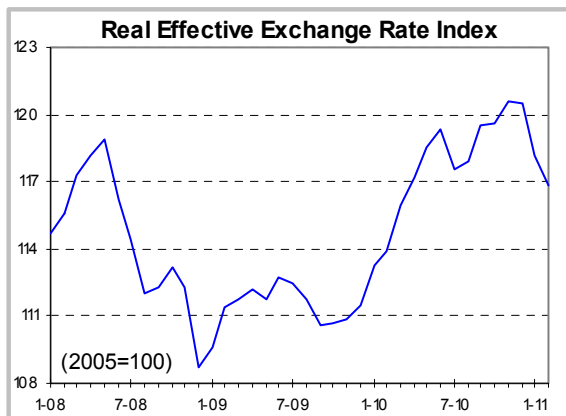
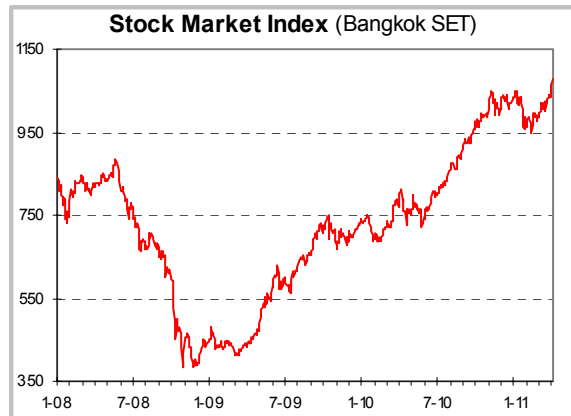
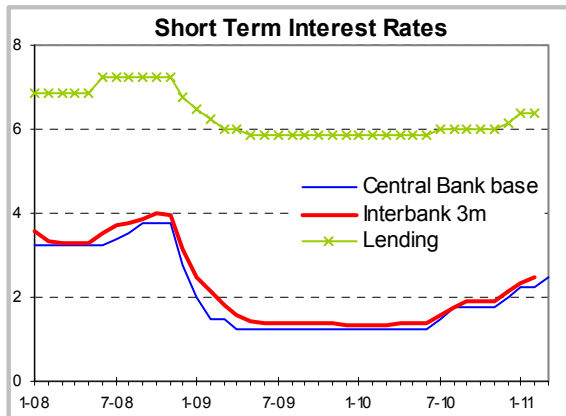
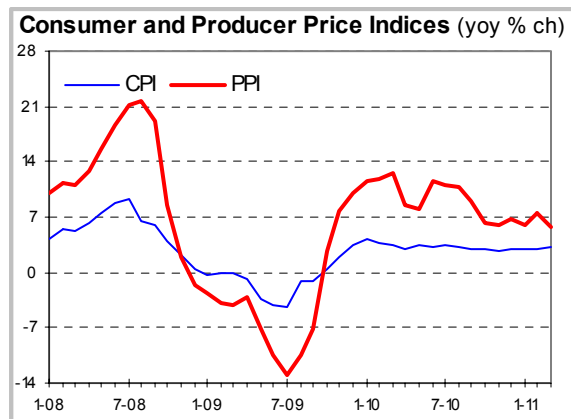
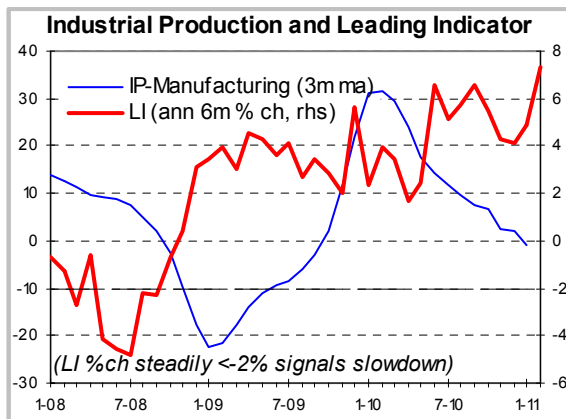
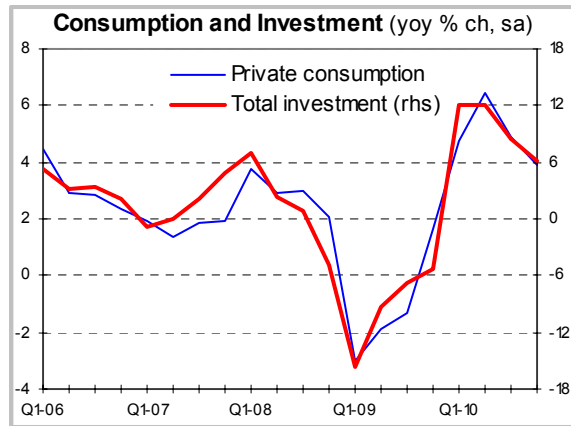
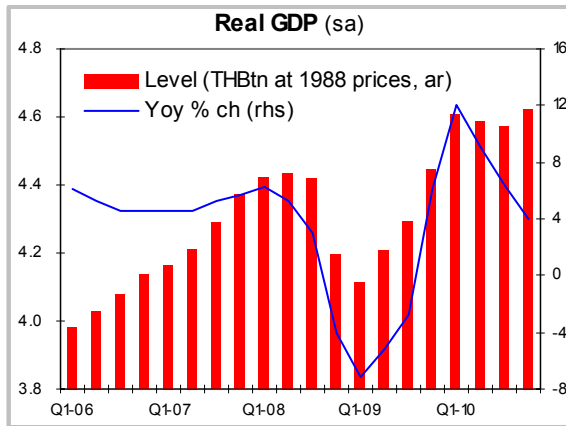
Short Term Interest Rate pa (o/n)	3.3	1.2	1.3	2.1 Feb
Stock Exchange Index (Bangkok) (% change)*	-10.2	-15.4	45.7	4.4 04/04/11**

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

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

- The Thai economy resurfaced from technical recession in Q4 10 when it grew by 1.2% qoq up from the previous quarter -0.3% qoq. Disaggregated data show a mixed picture as private consumption rebounded on a quarterly basis (+1.2% up from -0.2% in Q3 10), though remaining weak on annual comparison, while investment kept falling at an even larger rate than in the previous quarter (-3.0% vs -1.4%). Following a small contraction in Q3 10, construction investment grew by 1.3% qoq particularly thanks to the resumption of public investment.
- The significant appreciation of the *baht* over H2 10 has somewhat harmed export although less than expected. In fact, export continued to expand robustly in 2010 (+14.7% on annual basis) and recent trade data show that it entered the new year on a strong footing. The Japan disaster, however, may have a negative, albeit temporary, impact on Thai shipments.
- Manufacturing production weakened in February (-1.9% mom) although the leading indicator points to a healthier recovery ahead. There are also indications that investment activity is picking up again.
- Some risks to a relatively benign outlook may come from the still unresolved political situation and from the persistence, or even acceleration, of inflation. Consumer price yoy dynamics is stuck at around 3% while core inflation (i.e. excluding food and energy) continues to inch up. What worries more the Central Bank is that the labour market is already quite tight, which could ignite broad wage pressures.
- Given the above inflation concerns, the Central Bank hiked its policy rate once more on March, 9th by 25bp bringing it up to 2.5%. The tightening stance initiated in July 2010 when the reference policy rate was 1.25%.
- Tourist arrivals have resumed since H2 with the cumulative number of arrivals up by 12.5% in 2010 relative to the year earlier despite a negative spring performance. January's figures (+12.7% yoy) show that the positive trend in tourism is set to continue also this year, barring sudden political unrest.
- The *bath* has recently exhibited increased volatility as it stopped appreciating in late October and even devalued somewhat in January while most recently it started appreciating again. The solid economic fundamentals will continue to attract foreign capital so that appreciation pressures are likely to persist.

THAILAND



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

INDIA

Real Indicators*	2008	2009	2010	Latest
GDP**	7.4	6.7	8.6***	8.2 Q4
Industrial Production – Manufacturing	7.8	8.1	10.7	3.7 Dec
Construction Production (Gross Value Added)	6.2	5.7	9.1	8.0 Q4
Consumer Prices	8.3	10.9	12.0	8.8 Feb
Wholesale Prices	8.7	2.1	9.5	8.3 Feb
Current Account Balance (US\$bn)**	-31.0	-25.9	-51.8	-51.8 Q4°
as a percentage of GDP	-2.6	-2.2	-3.5	-3.5
Real Effective Exchange Rate Index [§]	99.8	94.5	105.7	105.4 Feb

* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; ** sa; *** nsa; ° latest 12 months up to Q4 included; § 2005=100

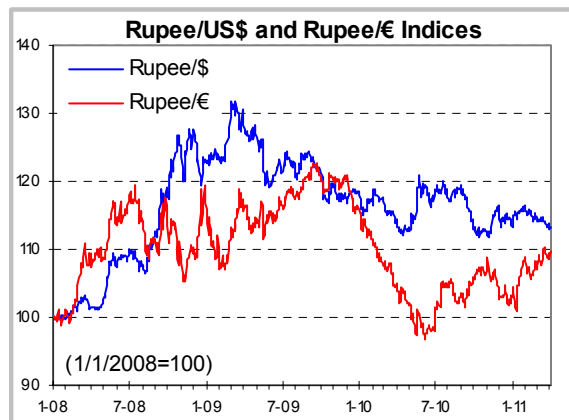
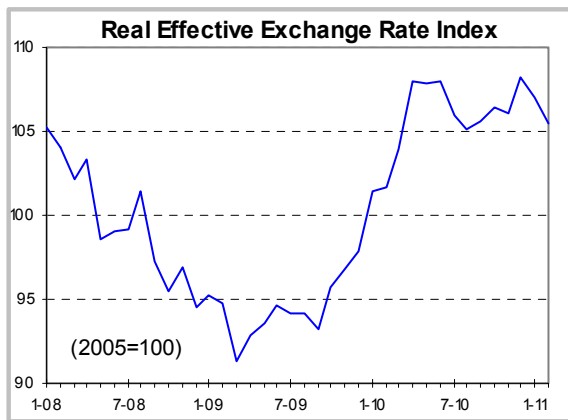
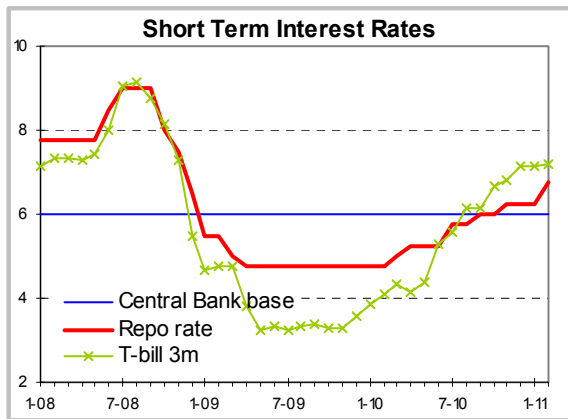
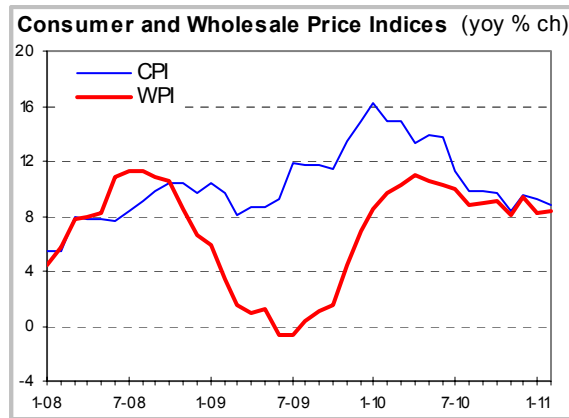
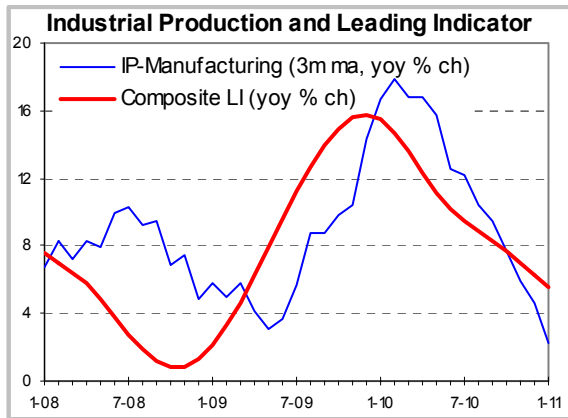
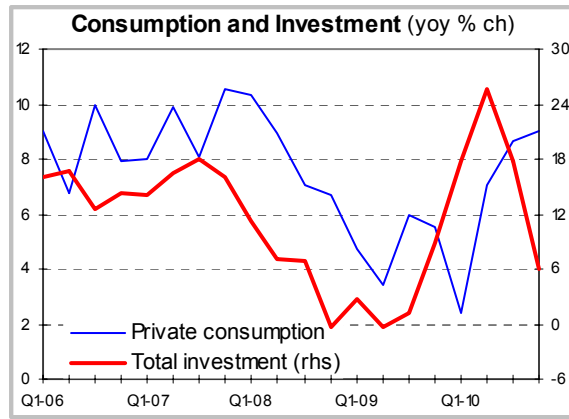
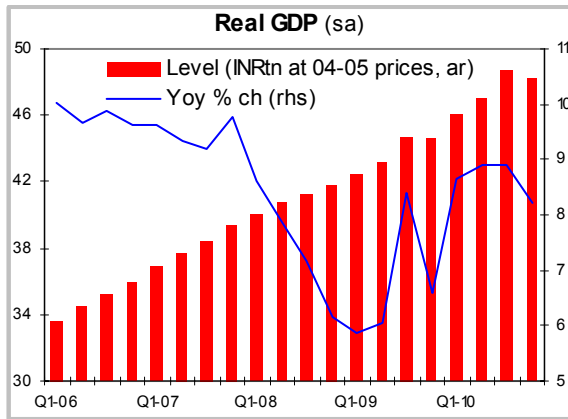
Financial Indicators				
Short Term Interest Rate pa (91-day T-bills)	7.7	3.7	5.4	7.2 Feb
Policy Rate (Repo)	8.0	4.9	5.5	6.8 Feb
Stock Exchange Index (Mumbai) (% ch)*	-6.9	-5.7	33.5	-3.9 04/04/11**

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

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

- Real GDP grew strongly in Q4 10 (+8.2% yoy) albeit decelerating from the previous quarter driven by both domestic demand and net export. Private consumption and total investment grew by 9% and 6% yoy, respectively, while public consumption fell by 3% yoy as the government started to pull back spending. Exports gained ground (+16.2% yoy), while a decline in imports by 7.3% should have helped tame the growing trade and current-account deficits. The good export performance suggests that last year *rupiah's* strength has not had a negative impact on competitiveness so far.
- From a sector perspective, agriculture rebounded healthily in Q4 10 thanks to favourable weather developments (+8.9% yoy) and also construction, financial services and property, and trade, hotels, transport and communication posted solid results (+8%, +9.4%, and +11.2% yoy, respectively). Manufacturing GDP continued to slow down significantly (+5.6%, down from +9.8% in Q3 10 and +13% in Q2 10).
- As a matter of fact, industrial production eased in recent months, particularly in the capital goods sub-sector, which reflects partly a high statistical basis a year earlier but also the effect of the ongoing monetary tightening. The OECD's composite leading indicator points to a slowdown but at the same time purchasing managers' surveys, infrastructure indicators and retail sales point to a still strong ongoing momentum. Overall economic prospects are thus still favourable although within a slowing trend also on the back of tighter monetary and fiscal stances.
- The Central Bank reiterated its hawkish stance in its latest statement following its monetary policy decision on March, 18th when the key policy repo and reverse repo rates were hiked for the second time this year (and the eight since March 2010) up to 6.75% and 5.75%, respectively. Inflation remains a primary concern given high international food and energy prices, a solid domestic demand environment and persisting supply bottlenecks.
- The ongoing monetary tightening appears to have so far partially succeeded in easing inflationary pressures, particularly at the consumers' level, but inflation figures are still elevated.
- The government has unveiled in late February its ambitious budget with continued emphasis on fiscal consolidation. The deficit is projected to fall to 4.6% of GDP in 2011/12, down from 5.1% in 2010/11, but some upward risks exist stemming from the uncertainty on the total subsidy amount to be disbursed given current trends in oil prices and still high food prices. The budget also addresses the issue of attracting foreign capital inflows by increasing limits to foreign investors in bonds in addition to a continued push in infrastructure spending and social inclusion policies.

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	9.8 Q4
Industrial Production	12.5	11.6	15.3	14.9 Feb
Consumer Prices	5.9	-0.7	3.3	4.9 Feb
Producer Prices	6.9	-5.4	5.5	7.2 Feb
Trade Balance (US\$bn)	360.7	249.5		182.7 Q4°
as a percentage of GDP	8.0	5.0		3.1
Real Effective Exchange Rate Index [§]	114.1	118.7	118.0	120.9 Feb

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q4 included; § 2005=100

Financial Indicators				
1Y Lending Rate	7.0	5.3	5.4	6.3 Apr
Stock Exchange Index (Shanghai) (% ch)*	-27.3	-10.4	3.0	5.7 04/04/11**

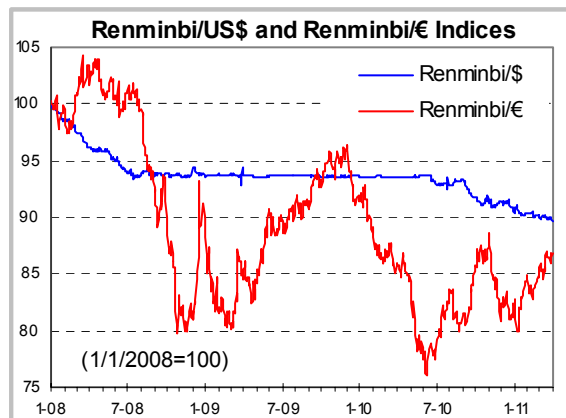
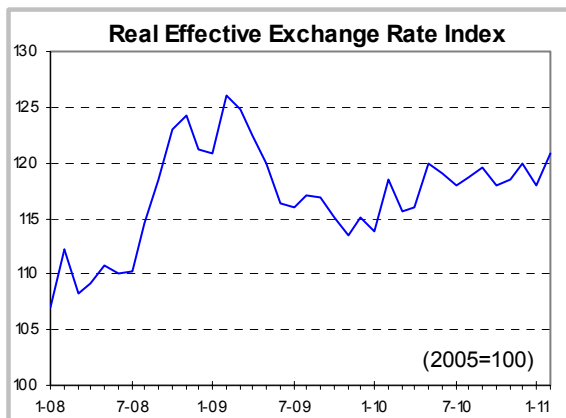
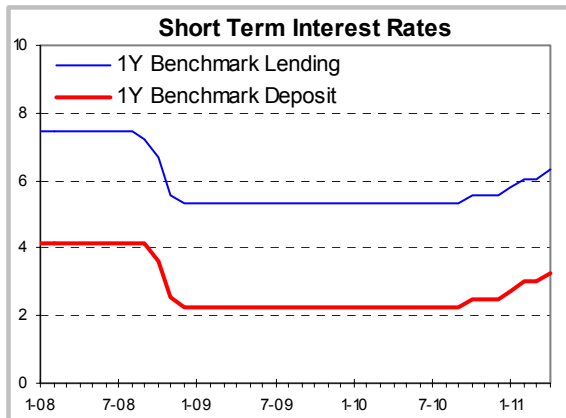
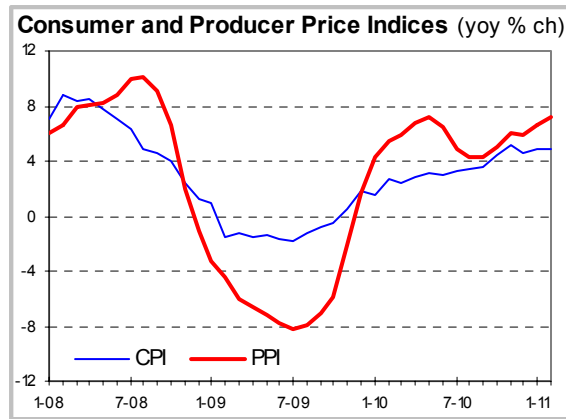
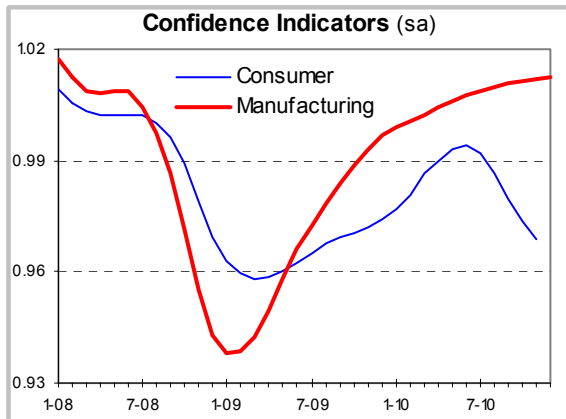
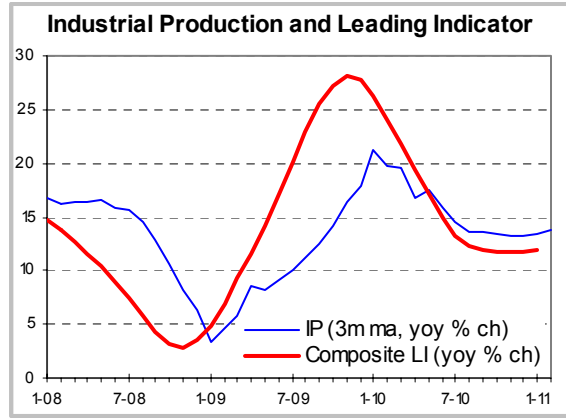
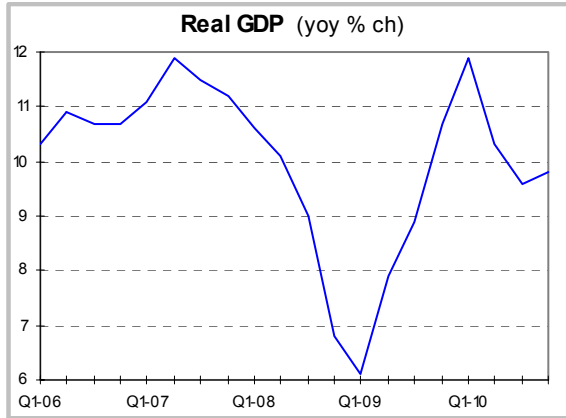
* Average over year; ** % change on 31/12/10

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

- Real GDP growth accelerated slightly in Q4 10 to 9.8% yoy bringing the annual growth figure back to double digits (+10.3%). The industrial sector drove the economy while on the expenditure side investment continued to dominate.
- Industrial output continues to expand at double digit rates signalling a still strong economic growth momentum despite the monetary tightening and the waning of the fiscal stimulus.
- Inflation remains high and rising given strong food and energy price pressures. This is seriously denting consumer confidence and a large proportion of households (85.8% of urban residents according to a survey conducted by the Central Bank) is currently more inclined to save than to spend, which does not bode well for future consumption developments.
- Official statistics on house prices in 82 cities for March show that house prices continue to climb, although the pace of increase is moderating in the largest cities. Real estate construction continues unabated (+35.2% yoy in Jan-Feb). Meanwhile, there is anecdotal evidence that foreign funds are pouring into the commercial real estate. There is thus no clear evidence that the residential market is significantly cooling down in response to progressive monetary tightening and three rounds of housing market measures, including a 60% down-payment requirement on second mortgages and home purchase restrictions in over 30 Chinese cities. Property markets risks remain thus still in place.
- The Central Bank continued to tighten its policy stance by raising banks' reserve requirement ratios (RRR) three times this year (the latest on March, 21st). The RRR is now 20% for large banks and 17.5% for small and medium financial institutions. Reference policy rates were not raised in March following two successive hikes in the first two months of 2011 (for a cumulative 50bp) but were hiked on April, 5th by 25bp signalling strong concerns on inflation by the Central Bank.
- The government announced early in March the new five-year plan which sets the GDP growth target of 7% starting this year through 2015. The official objective is to rebalance the economy so that the emphasis is to be put not just on growth but on reducing the economy's dependency from exports and investment as key drivers and propelling instead domestic consumption. The new development strategy also emphasises environmental and social sustainability.
- Foreign capital inflows reportedly accelerated in January in anticipation of faster exchange rate appreciation. The *renminbi* appreciated by about 2% since last December, when the appreciation trend resumed, and almost 4.5% since June, when the de-pegging of the currency was announced.

n. 1 - April, 6th 2011

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	6.8 Q3
Industrial Production	4.7	2.7	10.0	5.8 Jan
Consumer Prices	17.1	7.3	7.4	8.6 Mar
Producer Prices	36.8	-22.2	25.3	22.2 Mar
Unemployment Rate (%)	6.6	6.6	5.7	5.5 Q4
Current Account Balance (US\$bn)	6.3	-4.4	4.3	4.3 Q4°
as a percentage of GDP	4.7	-3.8	3.0	3.0
Real Effective Exchange Rate Index [§]	112.1	104.2	107.8	108.2 Jan

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q4 included; § 2000=100

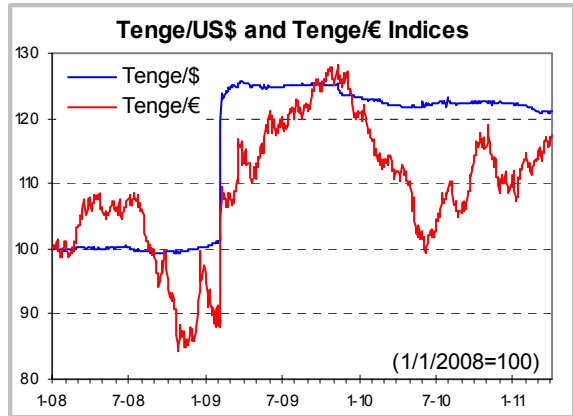
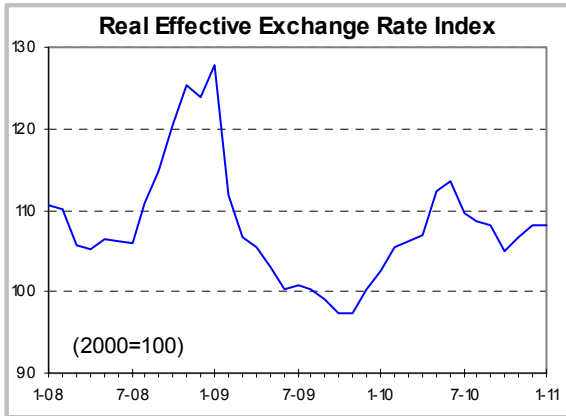
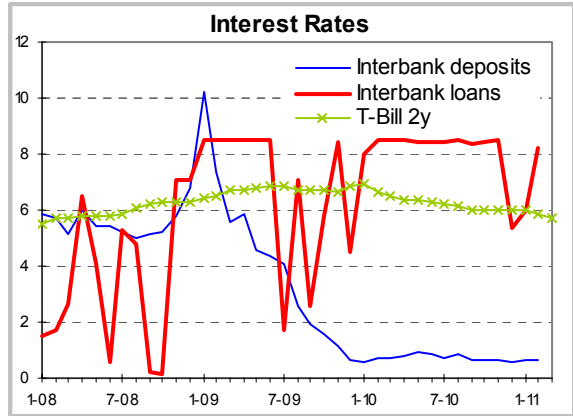
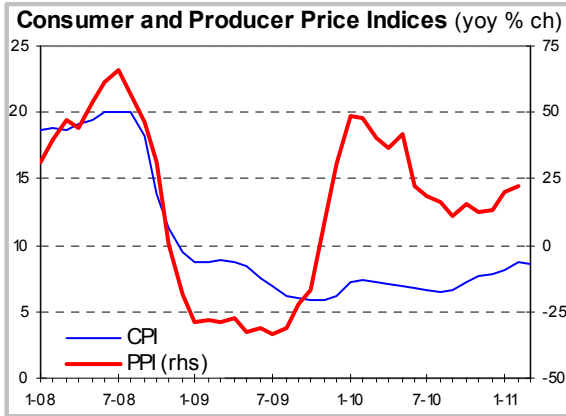
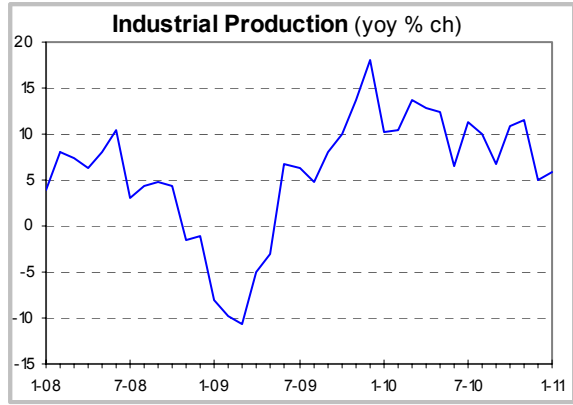
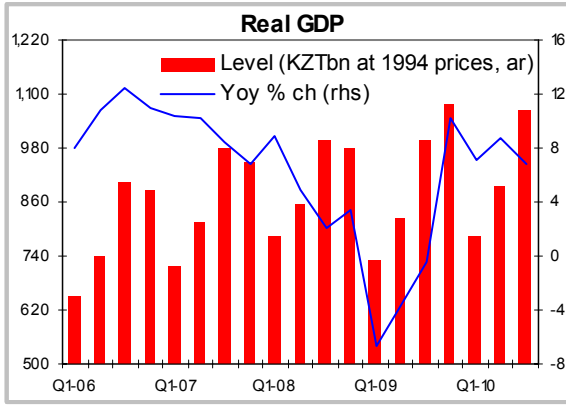
Financial Indicators				
Refinancing Rate (end of period)	10.8	8.3	7.0	7.5 Apr
Short Term Interest Rate pa (<1 year)	6.3	4.6	1.6	1.3 Mar
Exchange Rate Tenge/\$	120.3	147.6	147.4	145.7 Mar

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

- Preliminary national accounts estimates show that the Kazakh economy rebounded in 2010 posting 7% GDP growth over the full year primarily thanks to supportive energy prices. Annual data suggest also a significant easing in the expansion pace in Q4 10 given that yoy growth in H1 10 and Q1-Q3 10 had been 8% and 7.5%, respectively.
- In 2010 the agriculture sector was particularly hard hit by adverse weather conditions and contracted by almost 12% while industry continued to expand strongly (+9.6%). Construction has likely recorded positive yoy growth in Q4 as the annual result resurfaced to +1% (following -3.9% and -0.2% in H1 10 and Q1-Q3 10, respectively).
- On the expenditure side, data are available only through Q3 10 and show that household consumption and export have gained momentum, particularly the former, while investment and import have remained weak over the first three quarters.
- Preliminary estimates from the National Statistical Institute indicate that in the first two months of the current year industrial activity has somewhat slowed down, also because of a less favourable base effect, while trade, transport and communication have expanded strongly. Construction activity is estimated to have grown by 3.8% yoy in Jan-Feb, a sign that the three-year budget projects spending on infrastructure (ranging from power station, to transportation and agriculture upgrading) for 2011-13 (worth around €9.2bn or annually about 2.3% of GDP) may have set in.
- Banking sector restructuring is proceeding, but there are still worries about asset quality. In addition, levels of non-performing loans are still elevated albeit declining. Loans to the economy have stopped falling sharply and have almost stabilised in January (-0.5% yoy).
- Food price pressures coupled with high energy prices continue to fuel consumer price inflation which eased marginally in March but is at a still high 8.6%. This has prompted the National Bank of Kazakhstan (NBK) to lift its reference policy rate by 50bp up to 7.5% early in March, the first rate shift since September 2009.
- Not surprisingly, given last year oil price developments, the current account turned back to a large surplus in 2010. While foreign direct investment continued to contract (by 50% in Q4 10) expectations are for a recovery in investment inflows given ongoing turbulence in other key energy producer countries.
- The NBK has officially returned to a managed float of the *tenge* by end-February as the exchange rate corridor introduced in February 2009, when the currency was devalued by about 20% during the financial crisis, has been deemed not necessary anymore. In fact, appreciation pressures have emerged in recent months which will be likely curbed by the NBK with successive currency interventions so that the exchange rate level will not change substantially.

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KAZAKHSTAN



Source: National Bank of Kazakhstan