



Economic Profile in ITC Group Countries

N. 2 - July 18th 2008

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

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 July, 18th 2008
Available in @Gold

Highlights

- The global economic environment is rapidly changing - and not for the better
- Three worrying issues are at the centre stage:
 - skyrocketing price increases of oil and other basic commodities despite the ongoing weakening in global economic activity
 - the end of the housing boom - almost everywhere within the mature area - that in the past has been a powerful engine of growth but is now working in the opposite direction
 - growing fragility of the financial sector - particularly in the US - which is denting investors confidence as well as reducing credit availability
- The mix the three above factors are producing is tremendously negative. No international or national decision maker seems able to react taking effective and adequate economic policy measures, also given both inflationary and growth issues are at stake - hence a painful policy dilemma
- In the US second quarter data, to be released shortly ahead, are expected to be still fairly good, mainly thanks to the effect of the huge fiscal stimulus and a positive external contribution. However, growing signs of weakness herald that the economy could stagnate in the current quarter
- In the euro area too, after a better than expected first quarter 2008, economic activity is clearly decelerating. At the same time single countries' performances are further diverging, with Germany holding up fairly well and Italy and Spain rapidly losing steam
- Commodity price hikes are eventually filtering through to domestic inflation figures, with the euro area and the US crossing the 4 and 5% threshold, respectively. However, core inflation (i.e., excluding energy and food) remains in a more comfortable zone (below 2.5%, so far) which signals that second round effects are still contained
- On the other hand, two-digit inflation is showing up in some important emerging countries, which currently represents the biggest threat to the growth process of the developing area
- Construction prospects are worsening very rapidly in the Group's countries, as the housing bust, the credit squeeze, rebounding inflation and faltering overall economic conditions are all factors negatively affecting activity. National construction cycles are less synchronized than in the past, with the US hopefully not far from bottoming out and most European countries only in the early stages of a downturn, which may be now expected to fully unfold well into 2009. There is in any case widespread consensus that the existing imbalances will take time to adjust and that when a supposedly delayed recovery will show up it will do so at a very moderate pace

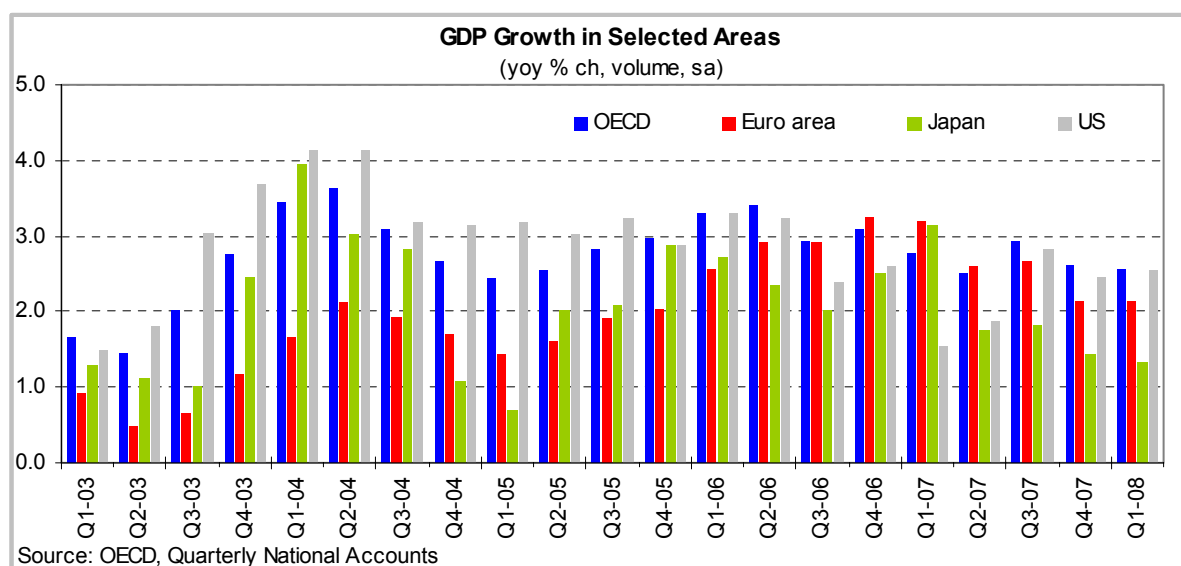
GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)	2005	2006	2007	Latest
GDP: OECD	2.7	3.1	2.7	2.6 Q1
Euro Area	1.7	2.9	2.6	2.2 Q1
US	3.1	2.9	2.2	2.5 Q1
Japan	1.9	2.4	2.1	1.3 Q1
Inflation: US	3.4	3.3	2.8	5.0 Jun
Euro Area	2.2	2.2	2.1	4.0 Jun
Oil Price Level (Brent, \$/barrel)	54.6	65.2	72.8	133.8 Jun
(yoy % ch)	42.7	19.3	11.6	88.4

Notes:

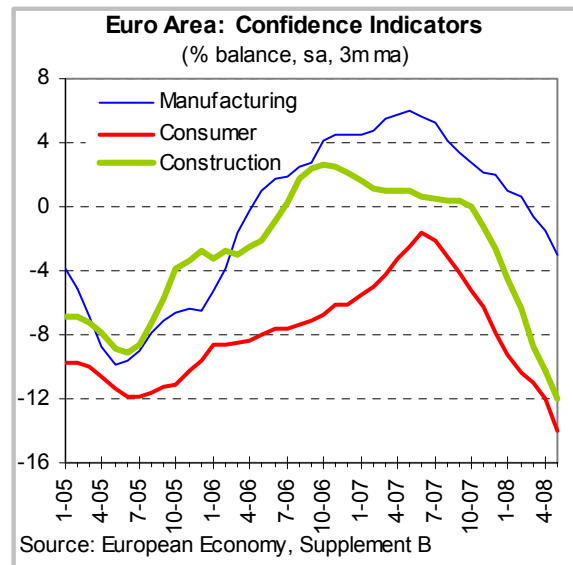
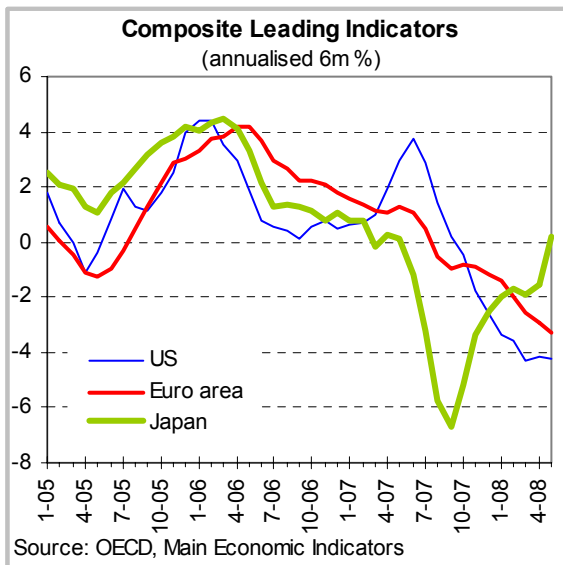
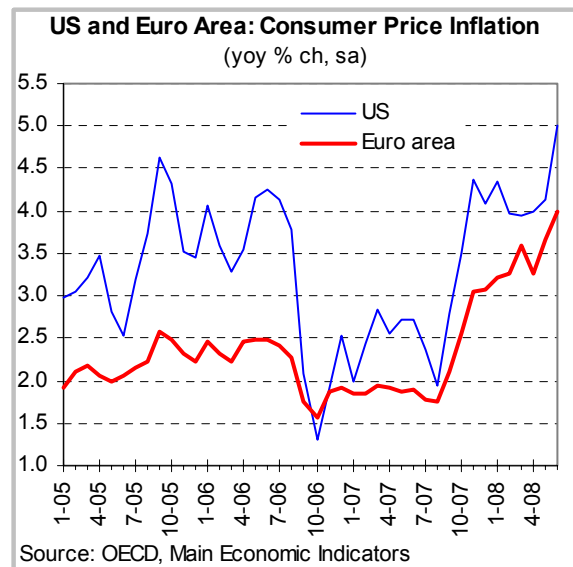
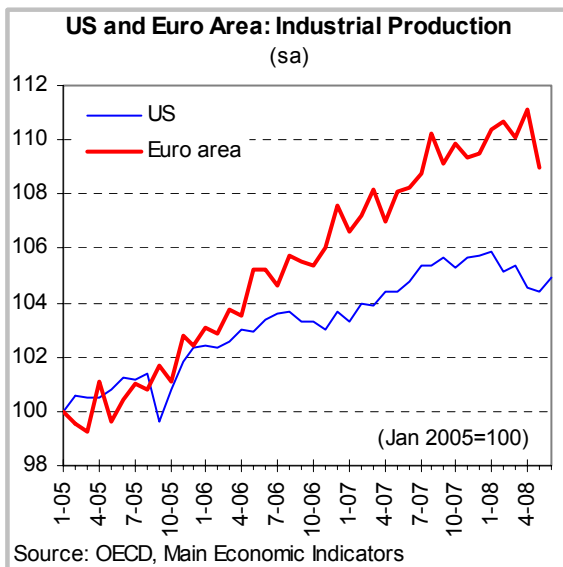
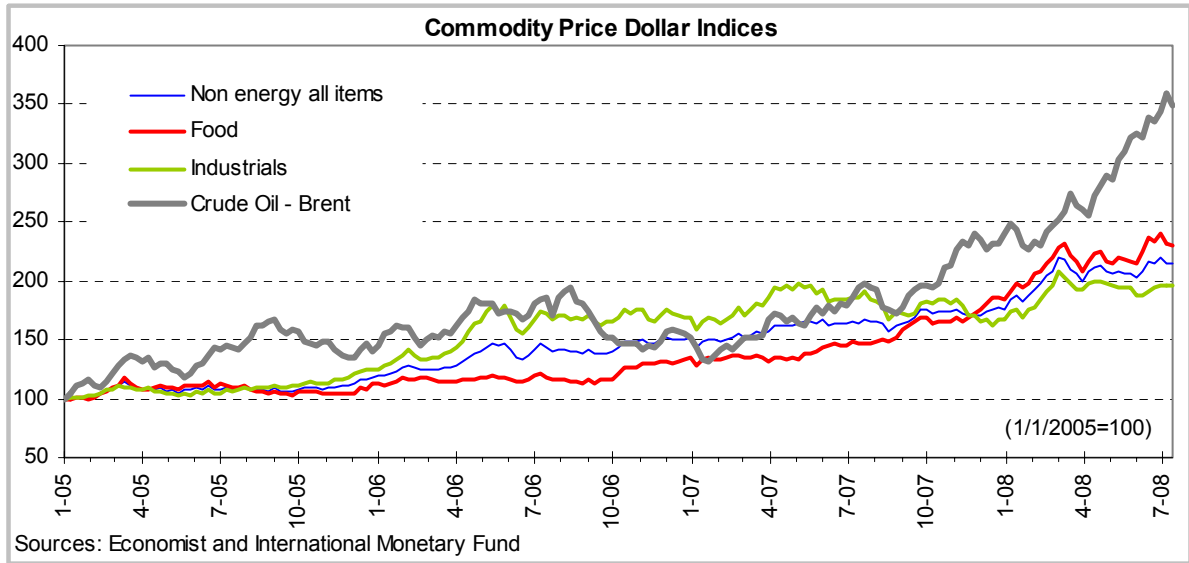
Sources: OECD, Bureau of Economic Analysis, Eurostat, International Monetary Fund, Energy International Agency

- The world economy is losing momentum on the back of the deep financial turmoil started last year and of record high commodity (energy and food) prices. So far, the emerging economies have been relatively unaffected but activity is starting to moderate in many of these countries. The industrialised economies, primarily the US and the euro area, have decelerated significantly and face a rather sluggish outlook, although not being at risk of recession - yet. According to recently revised IMF forecasts, the global economy should slow down by 0.9% in 2008 and grow by 4.1%.
- While food prices have somewhat stabilised, albeit remaining 60% higher than a year ago, oil prices keep on jumping from one record to another even in real terms. In nominal terms, one barrel of WTI oil costs almost double what it cost a year ago. A number of factors push energy prices up, the most important one being the fundamental imbalance between supply and demand. A crucial role is also played by speculation, the weak dollar, uncertainties related to the actual level of spare capacity and reserves, plus occasional geopolitical tensions such as the most recent ones in Nigeria and Brazil.
- Inflation has continued to accelerate all around the globe. In the euro area it spiked to 4% in June, the highest value in the EMU history, driven almost exclusively by energy and food price inflation (up 16% and 6.4%, respectively; inflation ex food and energy stands at 1.8%) as the strong euro, moderate cost pressures and weak domestic demand are mitigating the inflationary drive.
- On the other hand, in most emerging markets, and to a certain extent also in the US, the exogenous push from dearer energy and food commodities has combined with domestic demand driven price pressures to result in more aggressive inflation at both the consumer and the producer level. In many cases, far too lax and inappropriate monetary conditions are exacerbating the underlying price trends.



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REAL INDICATORS



GLOBAL ECONOMIC CONDITIONS: Financial Indicators

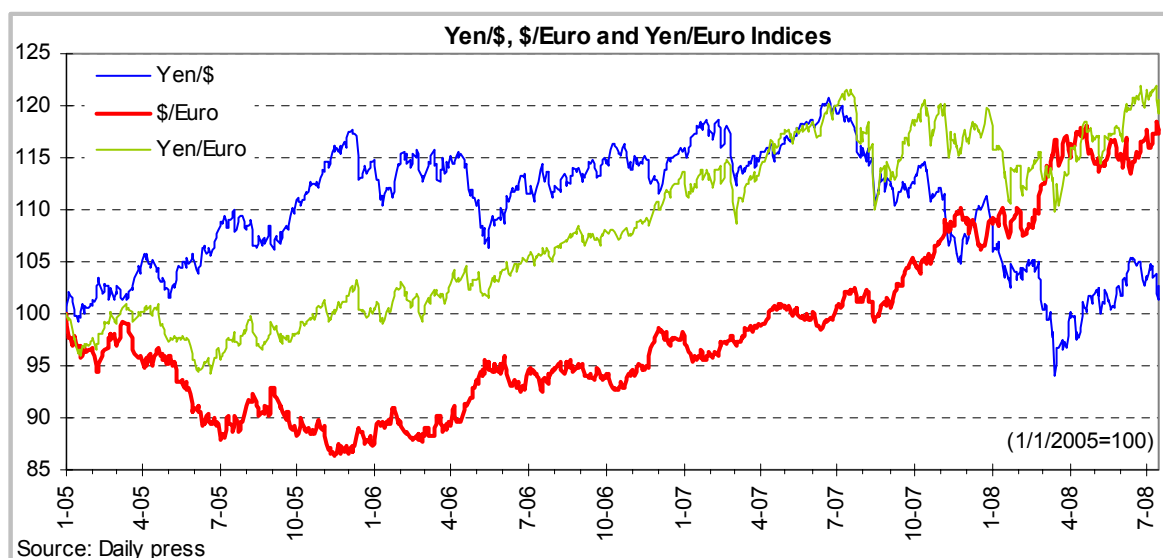
	2005	2006	2007	Latest
Dollar/Euro Exchange Rate	1.244	1.256	1.370	1.535 *
Policy Rates (end of period):				
- US (target for federal funds)	4.25	5.25	4.25	2.00 30/04/08
- Euro Area (repo rate)	2.25	3.50	4.00	4.25 09/07/08
Long Term Interest Rate (10y government bonds, year average):				
- US	4.29	4.79	4.63	4.10 Jun
- Euro Area	3.44	3.86	4.33	4.81 Jun

Notes:

* Average from 2/1/2008 to latest available data

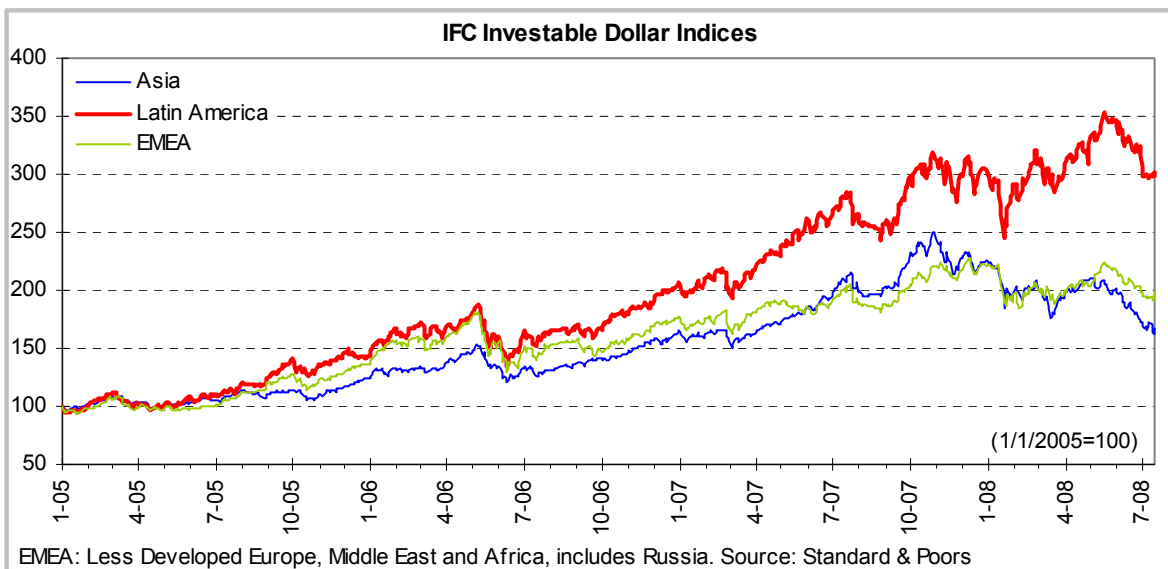
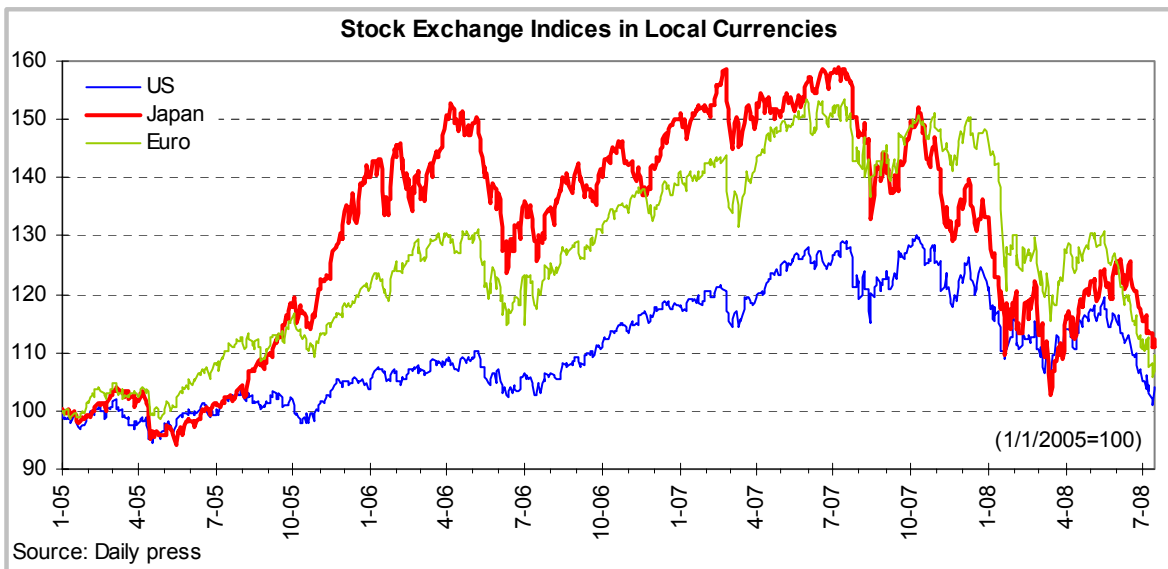
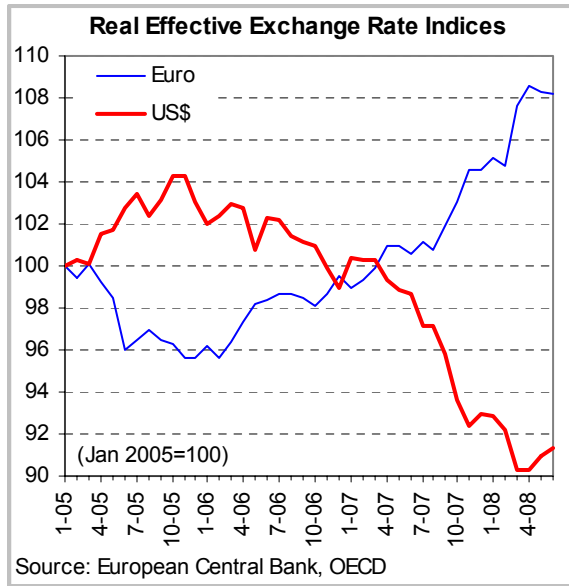
Sources: European Central Bank and Federal Reserve Bank

- Financial markets have not yet recovered from the turmoil initiated almost a year ago and sparked by the US sub-prime crisis. In fact, the idea that the worse has still to come is spreading, particularly following the worrying developments of the biggest US mortgage institutions (Fannie Mae and Freddie Mac). However, the US government has made sufficiently clear that such housing finance giants would not be let fail. Meanwhile the destiny of many medium sized banks is in doubt.
- After four months from the rescue of Bear Sterns bank the US credit market is still mired in difficulties and investors worry about the health of the banking industry. As a matter of fact, spreads on riskier assets are widening again and monetary conditions remain tense. In order to offer some reassurance the FED has announced it will extend its lending window to investment banks into 2009.
- As widely expected, the ECB raised its policy rate by 25bp early in July with the stated target of maintaining price stability and of keeping "inflation expectations firmly anchored in line with price stability". In fact, following the ECB decision financial markets appeared to have incorporated more stable inflation expectations. As wage and cost developments in the main euro countries are expected to remain moderate and as the euro area economy is facing a rather weak outlook, further rate hikes may not be deemed necessary although the ECB will keep its finger ready on the trigger. The combination of a very strong euro and of higher interest rates, coupled with the fall in stock exchanges, is resulting in tighter monetary and financial conditions which risk to dampen further an already weakening euro zone economy.
- Monetary policy on the other side of the Atlantic has been far more accommodative. The FED has however stopped cutting its policy rate signalling a possible change in US monetary stance.

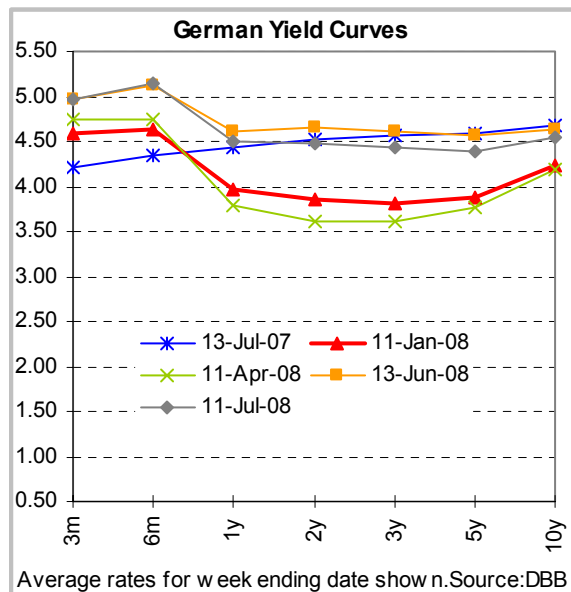
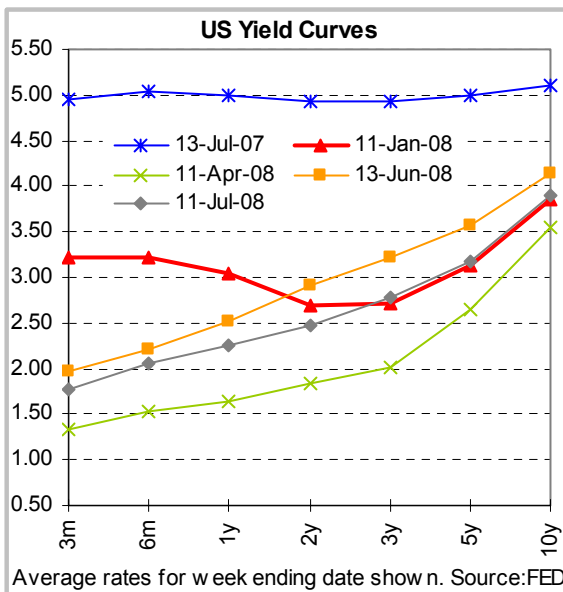
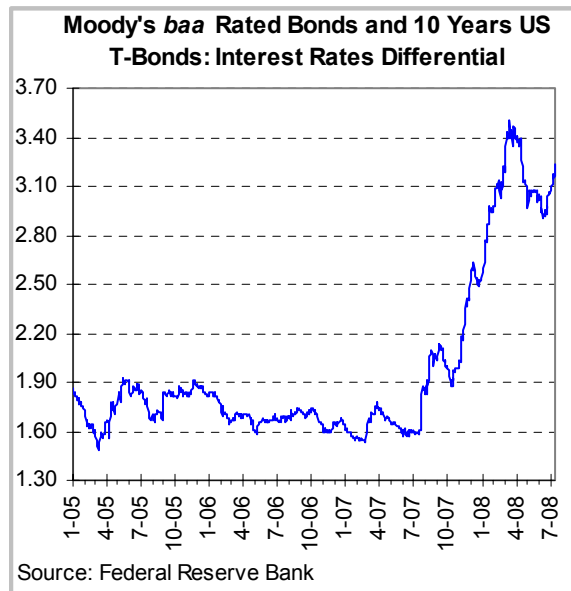
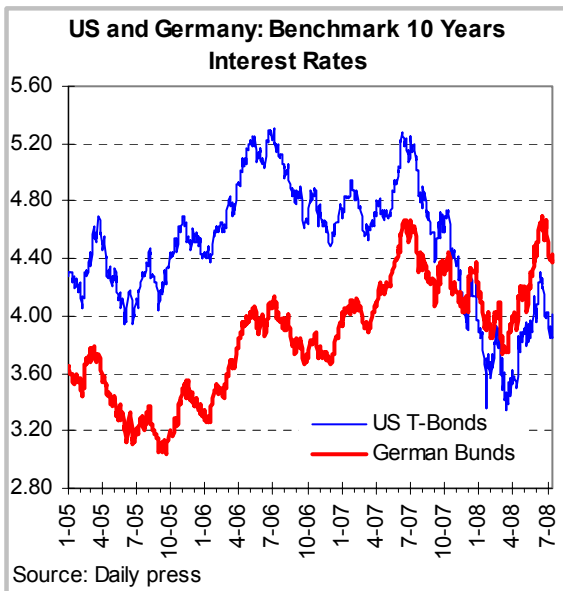
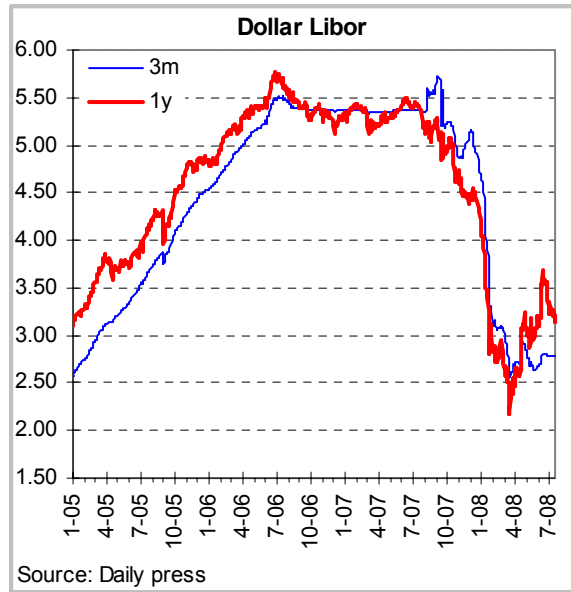
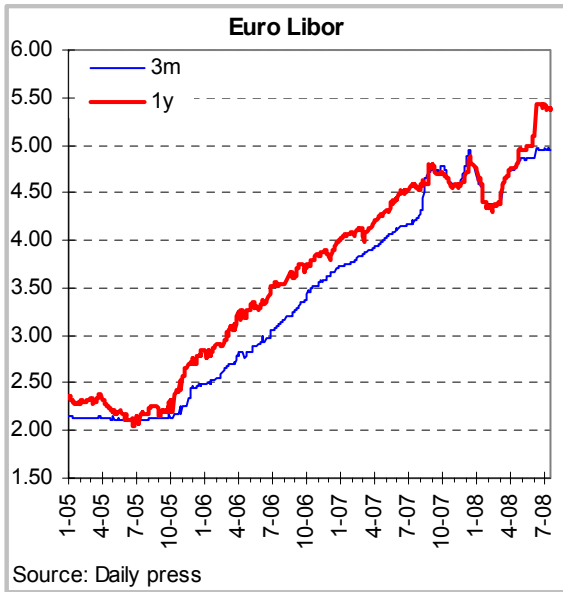


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FINANCIAL INDICATORS



FINANCIAL INDICATORS



UNITED STATES

Real Indicators*	2005	2006	2007	Latest
GDP	3.1	2.9	2.2	2.5 Q1
Industrial Production	3.2	4.0	2.1	0.5 Jun**
Construction Materials Production	4.8	3.5	-1.7	-0.9 Jun**
Construction Investment	3.3	-0.3	-5.4	-6.1 Q1
Housing Starts - Private	5.8	-12.9	-24.8	-26.9 Jun
Consumer Prices***	3.4	3.3	2.8	5.0 Jun
Producer Prices - Finished Goods***	4.8	3.0	3.9	9.2 Jun
Hourly Earnings - Manufacturing***	2.6	1.5	2.7	2.6 Jun
Standardised Unemployment Rate (%)	5.1	4.6	4.6	5.5 Jun
Current Account Balance (US\$bn)	-729.0	-788.1	-731.2	-710.7 Q1°
- as a percentage of GDP	-5.9	-6.0	-5.3	-5.1
Real Effective Exchange Rate Index [§]	93.3	92.6	88.5	82.6 Jun

Notes:

* % yoy ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators

Short Term Interest Rate pa (3m CD)	3.51	5.15	5.27	2.76 Jun
Long Term Interest Rate pa (benchmark 10y)	4.29	4.79	4.63	4.10 Jun
Stock Exchange (S&P 500) Index (% ch)*	6.8	8.5	12.7	-14.9 17/07/08**

Notes:

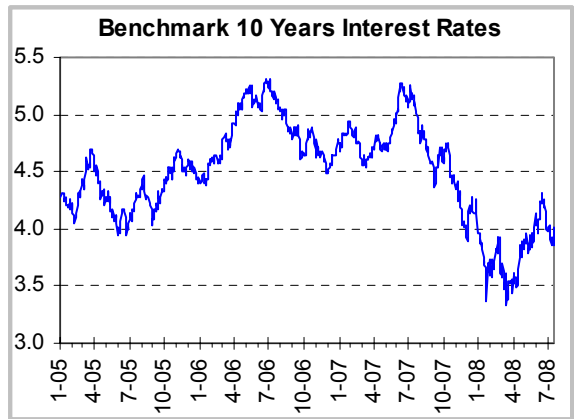
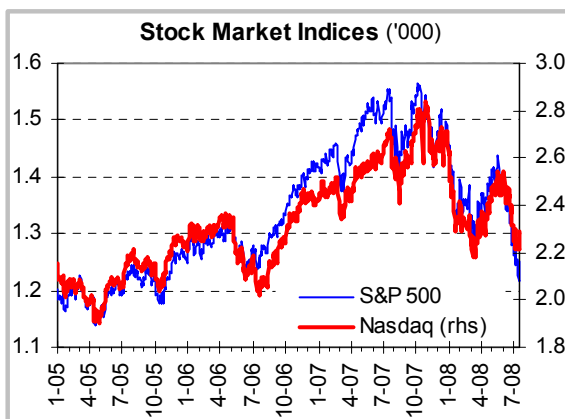
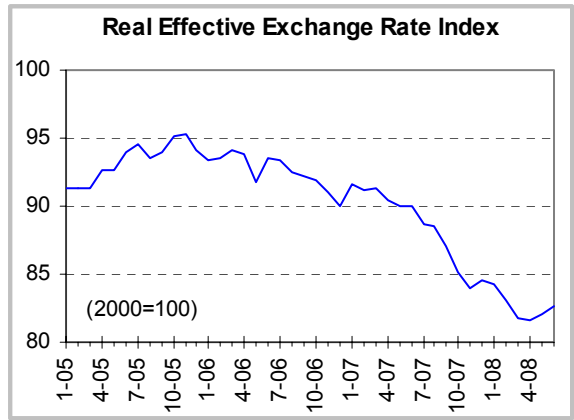
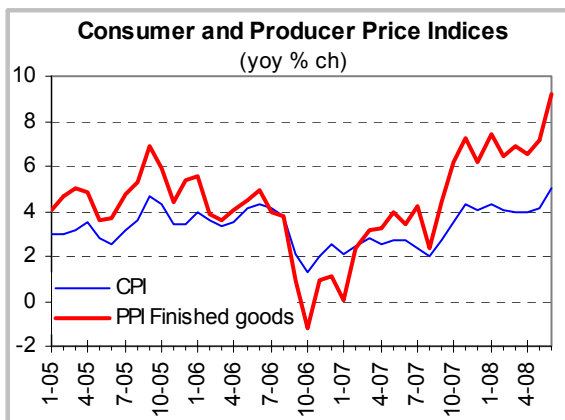
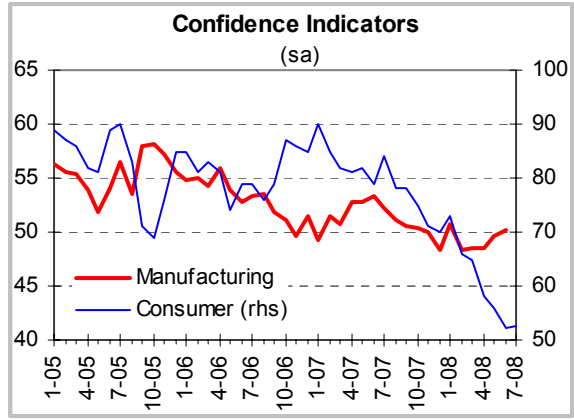
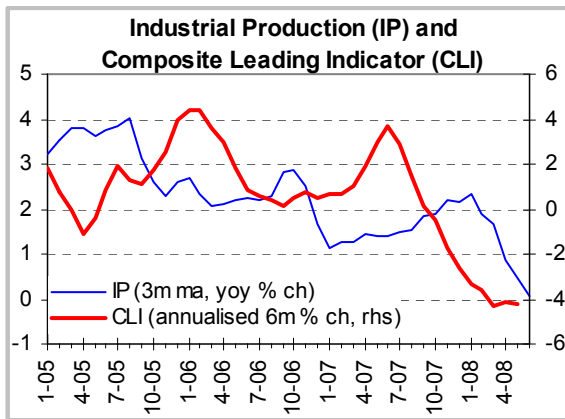
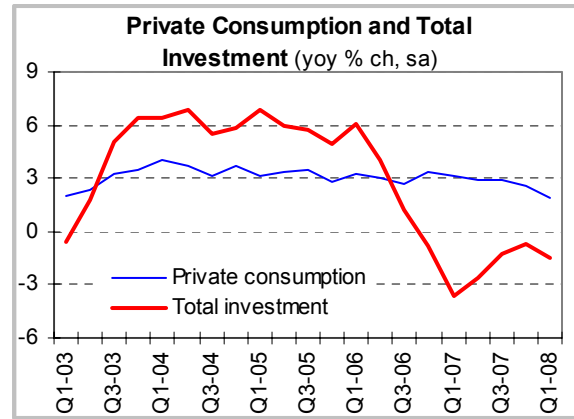
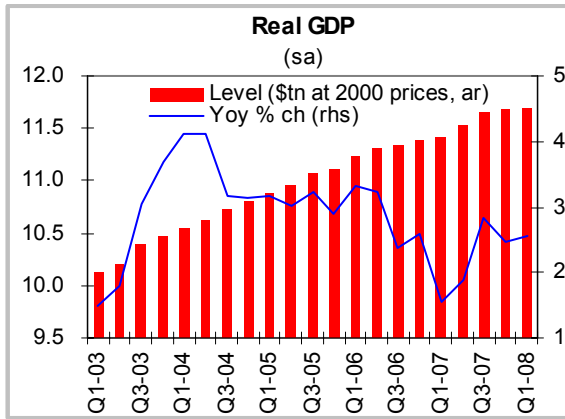
* Average over year; ** % change on 31/12/07

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

- The US economy slowed markedly in Q1 08, although GDP growth figures were slightly better than expected. The main drag on growth was residential investment, while private consumption slowed to 1.9% yoy (0.3% qoq) from 3.1% a year earlier and net trade contributed positively.
- The June data on inflation were particularly worrying: consumer price inflation was up 1.1% mom - which, aside Hurricane Katrina's related price boost, is the largest monthly rise since 1982. Yoy inflation hit 5%, never so high since 1991. Also the core index (ex food and energy) rose a strong 0.3% mom and 2.4% yoy, evidence that businesses are starting to pass on some of their higher costs to consumers. The unfavourable inflation news reinforces the shift in the Fed's risk bias toward inflation even as headwinds to growth intensify.
- Between end-April and end-July some US\$110bn in tax rebates are to be distributed to 130mn households. This massive fiscal stimulus plan has boosted disposable income growth temporarily but its expansionary effect on consumption does not appear to be satisfactory. Retail sales figures through June remain relatively weak, particularly excluding food and gasoline items, whose value is inflated by rising prices. As the tax rebate plan comes to an end sales are thus expected to suffer significantly. In real terms, consumption is likely to have failed to rebound strongly in Q2.
- Rising unemployment, the weaker than desired fiscal stimulus impact, tighter credit conditions, higher inflation and the continuing housing crisis all point to a grim outlook for the US economy. Consumer confidence is at recession levels while business confidence, albeit at level consistent with a stalling economy, is receiving some support from healthy foreign orders. Following a decent Q1 08 growth GDP is likely to show some resilience in Q2 but definitely decelerate further on.
- Positive news comes from the external sector. The dollar devaluation, still robust global demand coupled with subdued imports, despite the rising energy bill, are behind the marked improvement in the trade deficit. The real goods deficit is at its lowest level since October 2002 and has shrunk by nearly one-third since its peak in January 2006 and is well on track to add up to a percentage point to GDP growth in Q2.

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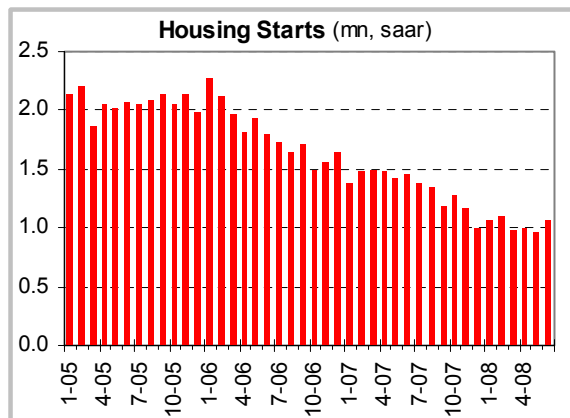
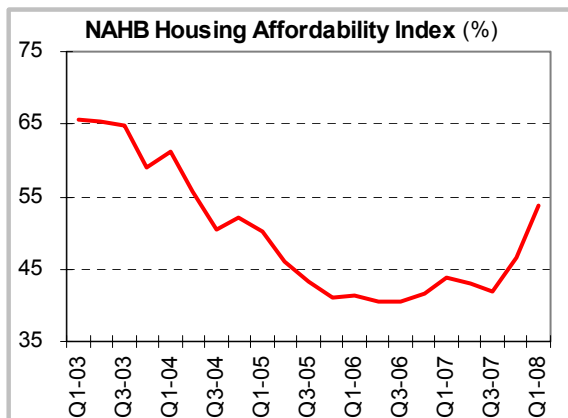
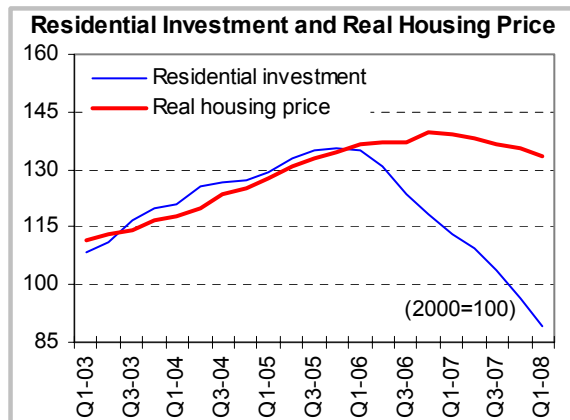
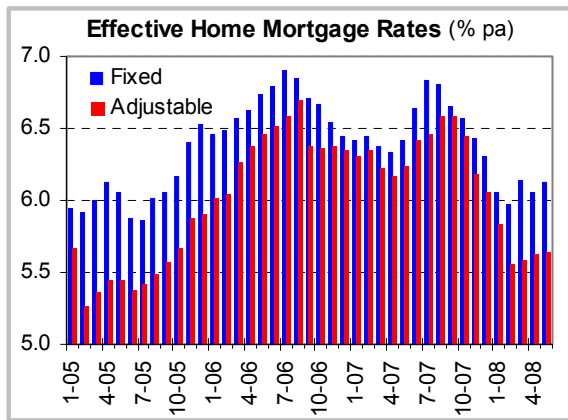
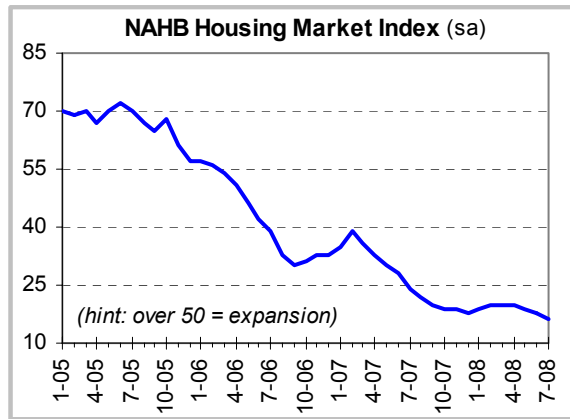
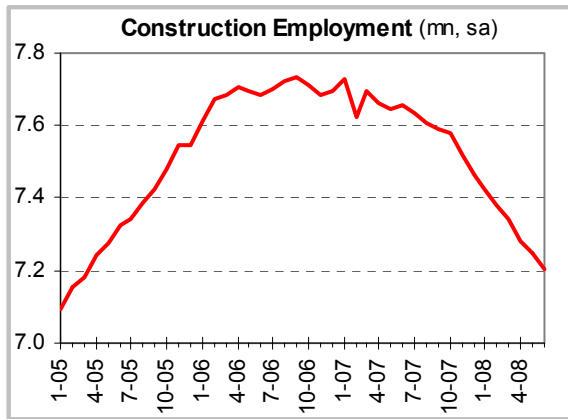
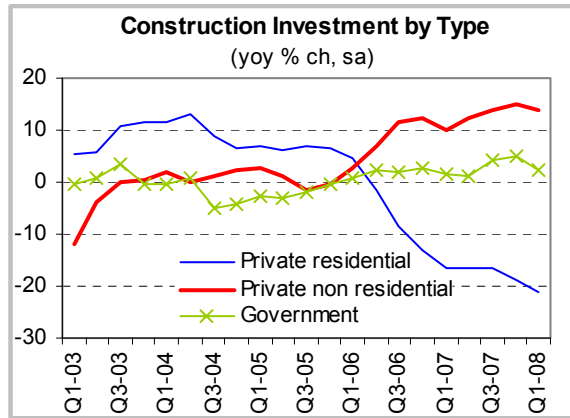
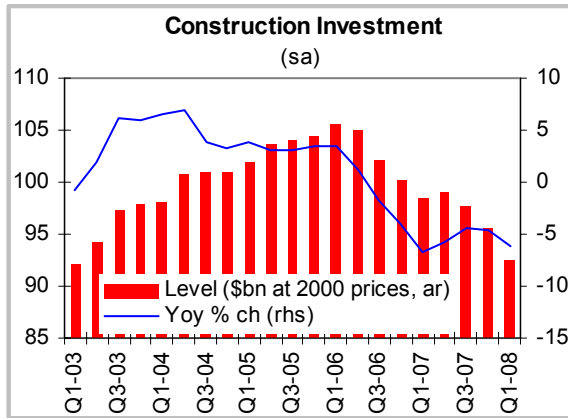
UNITED STATES



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

UNITED STATES

Business Conditions in the Construction Sector



Sources: US Census, National Association of Home Builders, Dept. of Labour, Federal Housing Finance Board, Bureau of Economic Analysis, Bureau of Economic Analysis, Bureau of Labour Statistics, OFHEO

UNITED STATES

- According to national accounts data, construction investment continued to drop in Q1 08 (-6.1% yoy and -3.4% qoq) due to the further worsening of the housing sector (-21% yoy and -6.9% qoq).
- The housing sector remains very depressed and no recovery is expected this year. Although the June housing starts and permits data look good at first glance, they are distorted by one particular event in the Northeast. A large number of multifamily units in New York City obtained permits and began construction in order to avoid the July the 1st deadline, when more restrictive construction codes took effect implying higher costs. Excluding Northeast data for multifamily units, the yoy growth rate would have been by far the worst since the start of the year. The NAHB's housing market index fell back in July to the record low. In addition, delinquencies and defaults are rising almost everywhere, and the problems are no longer spread just among sub-prime borrowers. Sales of new homes fell by 2.5% in May, continuing the uneven but persistent slide which began in the fall of 2005. Until a significant recovery in the pace of home sales does occur, inventories will remain elevated; excess inventory is currently estimated at 2.1mn. Continued cutbacks in starts and marginal gains in sales are expected to be more than offset by increases in sub-prime foreclosures added to the market during 2008 and early 2009. As a result, inventory levels are expected to remain in excess of 10 month's supply during the remainder of the year.
- The severe supply-demand imbalance is putting strong downward pressure on house prices. Nationally, house prices are down an annualized 23% from the fourth quarter, 16% below the mid-2006 peak. Furthermore, all major metros show declines, a sign of the geographic spread of the contraction. While home prices are falling rapidly and helping to improve home affordability, this is expected to be more than offset by weaker labour market conditions and rigid lending standards.
- The housing downturn might even deepen should the crisis of the two Government Sponsored Enterprises (Fannie Mae and Freddie Mac) continue to worsen. Analysts worry that the mortgage giants won't be able to raise enough fresh funds from investors to cover rising losses stemming from loan defaults. These doubts have sparked a sell-off by investors. Fannie Mae and Freddie Mac are vital to the housing market (they own or guarantee over 50% of total US mortgages), and the government is considered likely to step in to avert any potential failure through loans or guarantees of their debt. But the dramatic plunges in their stock values - Freddie Mac has fallen 50% in just the past week - underline the potential for the residential recession to extend well into next year.
- The non residential segment has clearly decelerated in Q1 08 (+0.3% qoq, the worst performance since Q2 05) and it is set to subside further this year, due to the economic slowdown and stricter lending standards.
- Public works contracted by 1.9% qoq in Q1 08. The expected shortfall in state/local revenues is darkening the picture for the segment and the combination of lower revenues and higher spending on other items suggests that public investment will remain subdued also in the next months.

CANADA

Real Indicators*	2005	2006	2007	Latest
GDP	2.9	3.1	2.7	1.7 Q1
Industrial Production	1.7	-0.4	0.0	1.0 Apr**
Construction Production	7.8	8.1	4.3	-0.7 Apr**
Construction Investment	6.7	5.3	2.2	0.3 Q1
Consumer Prices***	2.3	2.0	2.2	2.2 May
Producer Prices - Manufacturing***	1.5	2.4	1.6	1.0 Apr
Hourly Earnings - Manufacturing***	1.8	0.5	4.2	6.5 Mar
Standardised Unemployment Rate (%)	6.8	6.3	6.0	6.2 Jun
Current Account Balance (Can\$bn)	26.5	20.2	13.6	15.2 Q1°
as a percentage of GDP	1.9	1.4	0.9	1.0
Real Effective Exchange Rate Index§	118.7	125.4	129.7	130.2 Jun

Notes

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	2.66	4.02	4.34	2.99 Jun
Long term interest rate pa (benchmark 10y)	4.07	4.21	4.27	3.74 Jun
Stock Exchange (TSE) Index (% ch)*	17.6	18.4	13.8	-2.9 17/07/08**

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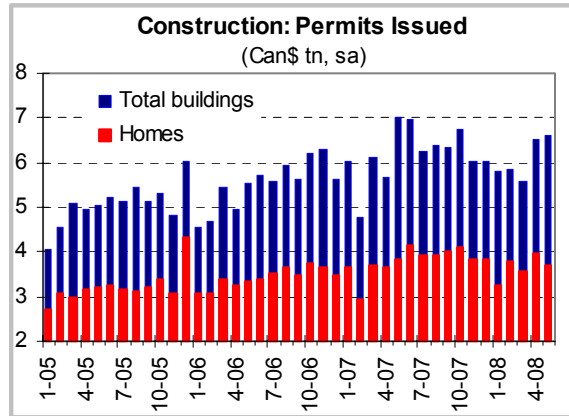
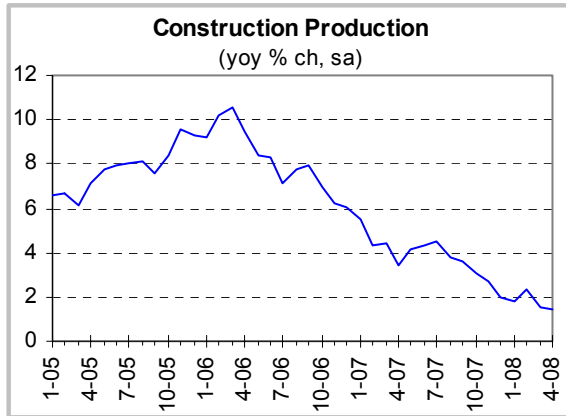
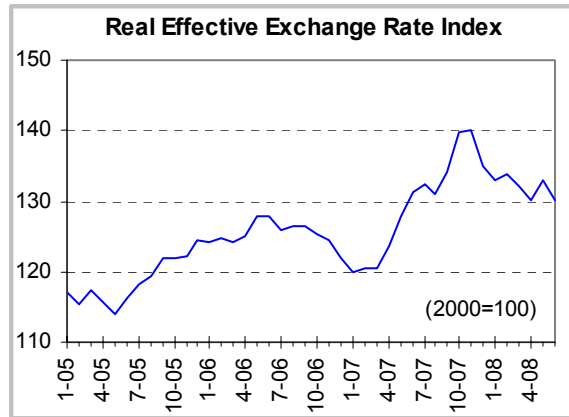
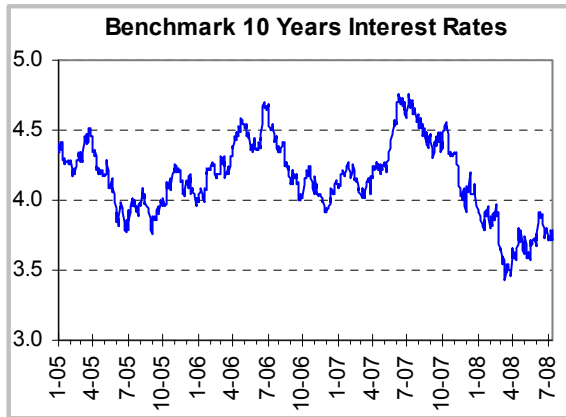
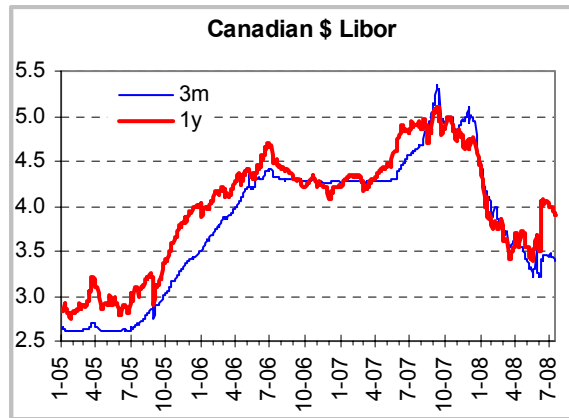
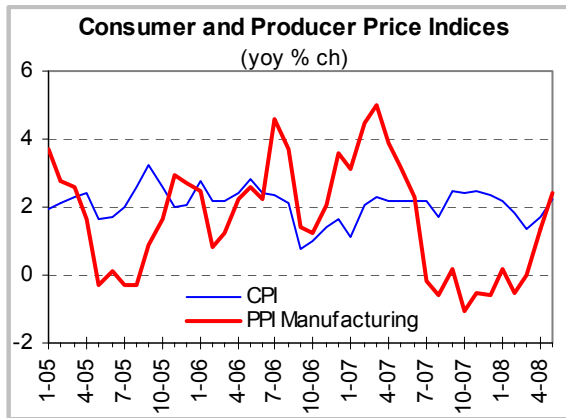
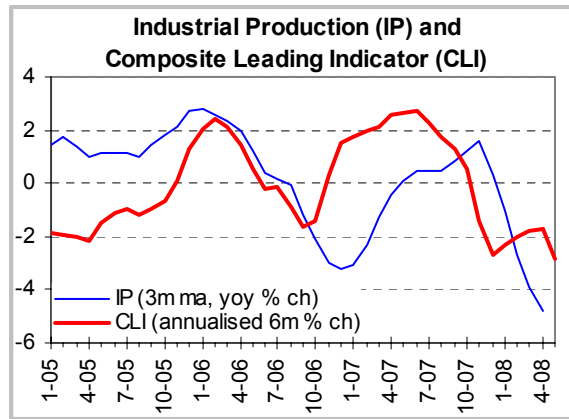
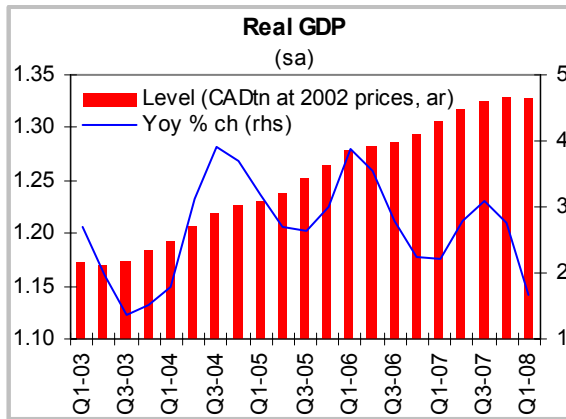
* Average over year; ** % change on 31/12/07

Sources: OECD, Statistics Canada, BIS, daily press

- The Canadian economy is slowing down sharply as external headwinds coming from the South gain strength. GDP growth was weak in Q1 08 at 1.7% yoy while marginally contracting on a quarterly basis. Albeit decelerating significantly, private consumption remained the most dynamic component while the contribution of investment to overall growth turned negative. Net export contributed positively, despite the dramatic fall in exports.
- While business investment remained positive, residential investment contracted as the housing boom is starting to subside. The housing cycle is on the downturn but on relatively solid ground as, contrary to what is happening South of the border, prices are not going to tumble and there is no evidence of widespread financial distress originated by sub-prime lending practices - which in fact have been very contained. Note also that adjustable rate mortgages never took hold in Canada, and borrowing practices have been much more stringent.
- On the other hand, investment in infrastructure is set to remain strong as governments across Canada have announced heavy infrastructure spending on airports, roads, subways, hospitals, and office buildings.
- A very strong inventory draw down dragged heavily on growth in Q1 08. This was in part the effect of a strike in car parts producers in the US which disrupted shipments and production in Canada and did not end until mid-May. While the mining sector is benefiting from strong global prices, the manufacturing sector is suffering both from faltering US demand and the strong currency.
- The Canadian dollar reached a three-decade high of almost 0.90CA\$ per US\$ in early November 2007, but has since hovered closer to par. The appreciation was largely due to stronger commodity prices, particularly oil and natural gas and is exerting growing pressure on manufacturing exports. On the other hand, it has helped contain inflation.
- The Bank of Canada lowered its policy rate three times since December 2007 by a total of 150bp to 3% on concerns that the financial turmoil and housing-sector collapse in the United States may spread to Canada. Its latest policy announcement, early in June, however, marked the end of the easing phase as the inflation risks supplant economic growth as the target issue.

n. 2 - July, 18th 2008

CANADA



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2005	2006	2007	Latest
GDP (wda)	1.9	2.4	2.1	2.0 Q1
Industrial Production	0.3	0.6	1.6	-2.6 May**
Construction Production	3.5	4.6	4.3	-1.0 May**
Construction Investment	3.7	5.3	4.5	2.3 Q1
Consumer Prices - Harmonised Index***	1.8	2.0	1.6	4.0 Jun
Producer Prices - Manufactured Goods***	1.8	2.5	2.2	2.1 May
Hourly Earnings - Manufacturing (<i>ouvriers</i>)***	2.9	2.8	2.8	2.8 Q1
Standardised Unemployment Rate (%)	9.3	9.2	8.3	7.4 May
Current Account Balance (€bn)	-15.7	-22.5	-21.9	-25.0 Q1°
as a percentage of GDP	-0.9	-1.2	-1.2	-1.3
Real Effective Exchange Rate Index§	108.9	108.2	109.1	112.0 Jun

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.18	3.08	4.28	4.94 Jun
Long Term Interest Rate pa (benchmark 10y)	3.41	3.80	4.30	4.73 Jun
Stock Exchange (CAC) Index (% ch)*	15.8	19.7	12.1	-24.7 17/07/08**

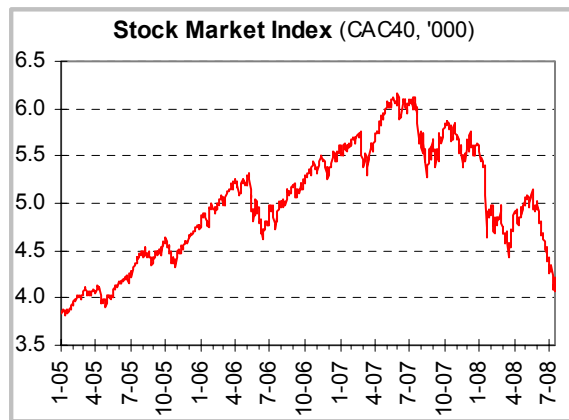
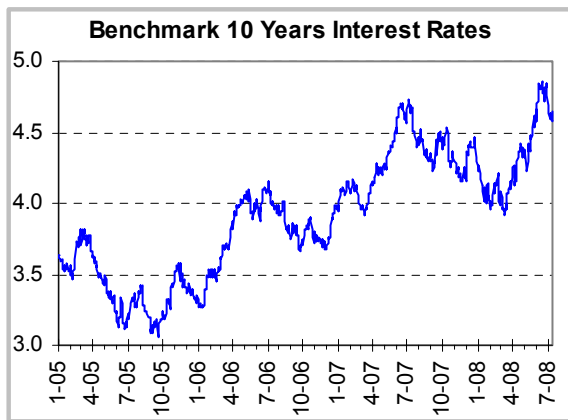
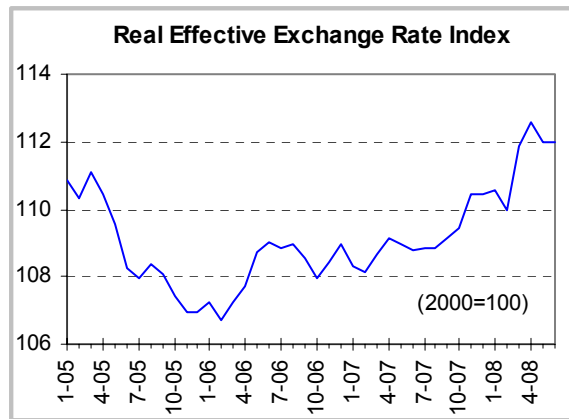
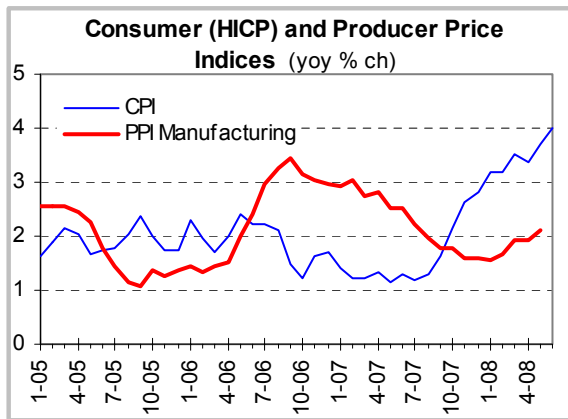
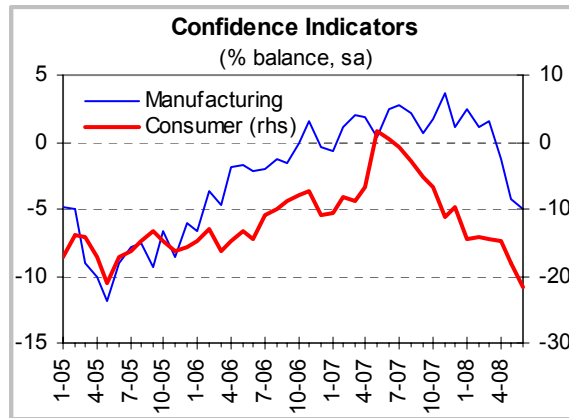
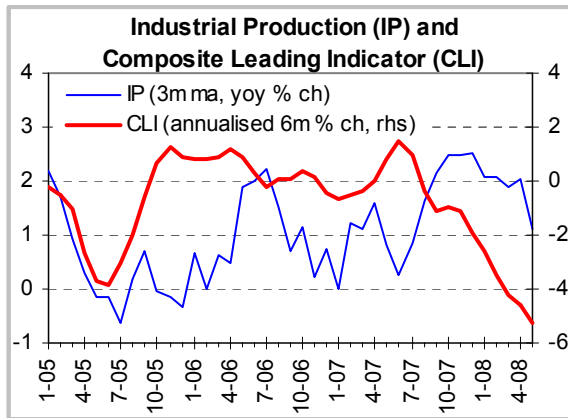
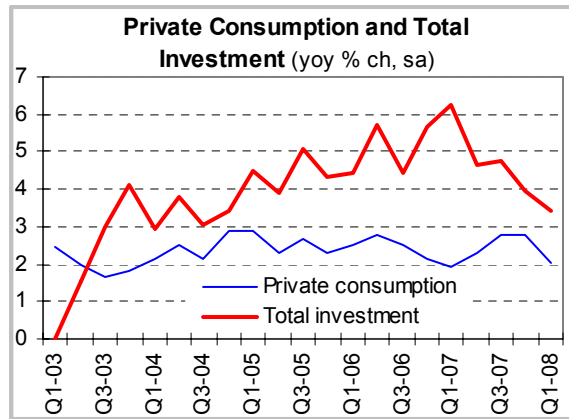
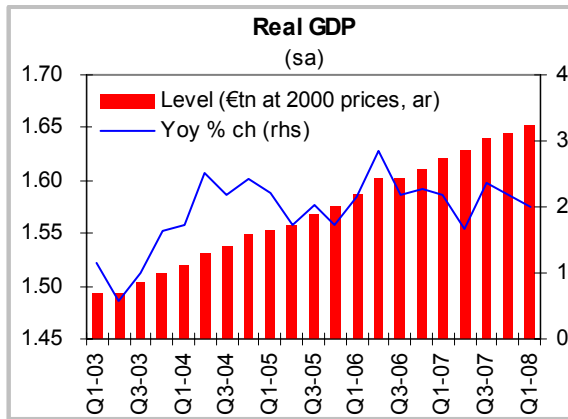
Notes:

*Average over year; ** % change on 31/12/07

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

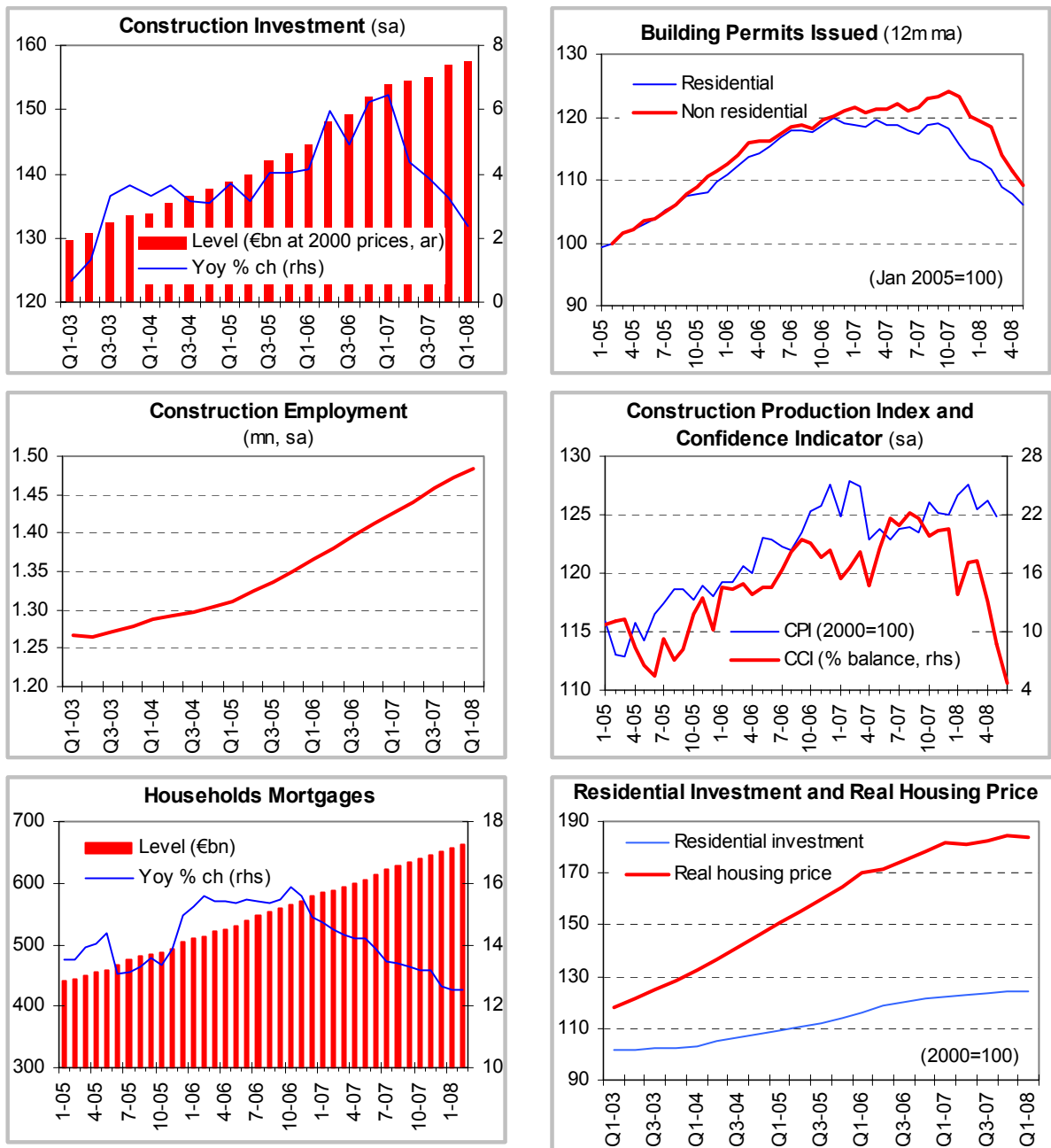
- GDP growth came as a positive surprise at 0.5% qoq in the first quarter of 2008. The breakdown by component shows that growth was driven by export (+3.2% qoq) and investment (+0.8% qoq), while private consumption stagnated, marking the weakest performance in a decade. Leading indicators point to softening activity in the remainder of the year. As a matter of fact, business confidence has begun to weaken, while consumer confidence has fallen to a record-low level.
- Industrial production was down 2.6% mom in May. The contraction was broad-based across industries, and particularly pronounced in the automotive, down by 8.8% mom. The manufacturing sector is currently being hit by the combination of a strong euro, high commodity prices, and rising interest rates. Moreover, activity among France's major trade partners, which was surprisingly healthy during the first quarter of 2008, is set to decelerate markedly over the next few months, thus weighing down on external demand for French products.
- Inflation rose sharply to 4.0% yoy in June, while core inflation remained steady at 2.0%. As it had been the case in previous months, energy and food prices were the main drivers behind the surge, and pressures they are exerting are set to remain in place at least until the third quarter of the year. Furthermore, industrial utilization capacity rates are currently above their long-term average, and together with higher unit labour costs are putting further pressure on headline inflation. Nevertheless, the strong euro should help to limit increases in the prices of imported products, while weaker output growth during the next quarters should help to contain the potential for second-round effects.
- The fiscal deficit deteriorated in 2007 (2.7% of GDP) as the government privileged tax cuts over expenditure savings. Mr Sarkozy's commitments on tax and spending suggest that serious efforts toward fiscal consolidation are unlikely before 2009 at the earliest. As a result, the 2008 deficit is likely to approach the ceiling of 3% of GDP set by the Stability and Growth Pact. In this regard, in May the European Commission sent an "early warning" to France.

FRANCE



Sources: OECD, INSEE, BIS, daily press

Business Conditions in the Construction Sector



Sources: OECD, Ministère de l'Équipement, INSEE, European Commission, Banque de France

- Though remaining in positive territory, in Q1 08 the construction sector continued to decelerate (+2.3% yoy; +0.4% qoq).
- Leading indicators show that the residential segment is set to slow down further in the months ahead. As a matter of fact, both building permits issued and housing starts decreased by over 15% yoy between January and May 2008. Households' mortgages are softening due to stricter credit conditions, while housing prices continue on their downward trend. However, the intensive government program to boost social housing and the low banks' exposure to the sub-prime crisis should prevent a US-style recession from taking place.
- Following a robust 2007, the non residential sector is pausing in 2008 as it is confirmed by leading indicators: permits issued and building starts declined by 22.2% and 15.8% yoy respectively between January and May.
- The commitment to reduce local government debt is curbing spending in 2008 and the local investment cycle will likewise tend toward postponing the launch of new projects to 2009.

BELGIUM

Real Indicators*	2005	2006	2007	Latest
GDP (wda)	2.0	2.9	2.8	2.2 Q1
Industrial Production	-0.4	5.1	2.6	6.3 Apr**
Construction Production	-3.4	3.2	2.3	26.9 Apr**
Construction (Gross Value Added)	3.3	9.1	3.9	1.7 Q1
Consumer Prices – Harmonised Index***	2.5	2.4	1.8	5.8 Jun
Producer Prices***	2.7	5.0	3.3	9.7 May
Hourly Earnings-Industry***	2.5	2.2	1.7	3.0 Q2
Standardised Unemployment Rate (%)	8.5	8.2	7.5	6.6 Jun
Current Account Balance (bn €)	7.9	8.4	7.0	0.7 Q1°
as a percentage of GDP	2.6	2.7	2.1	0.2
Real Effective Exchange Rate Index§	109.2	108.9	109.9	115.0 Jun

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.18	3.08	4.28	4.94 Jun
Long Term Interest Rate pa (benchmark 10y)	3.37	3.81	4.33	4.84 Jun
Stock Exchange (BEL20) Index (% ch)*	25.0	22.2	13.1	-27.3 17/07/08**

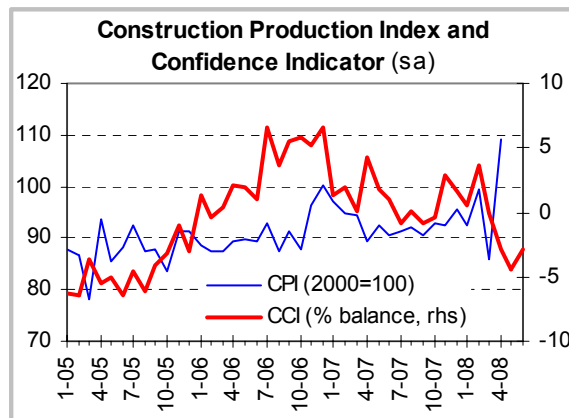
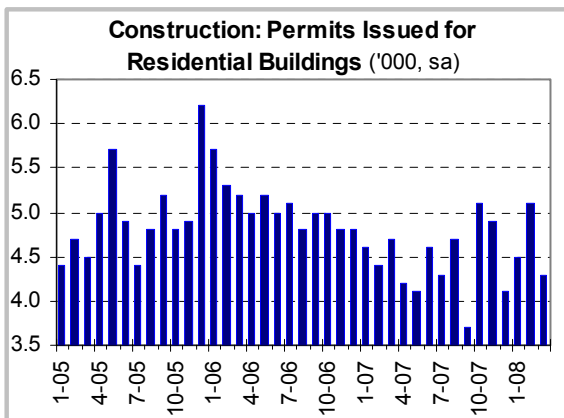
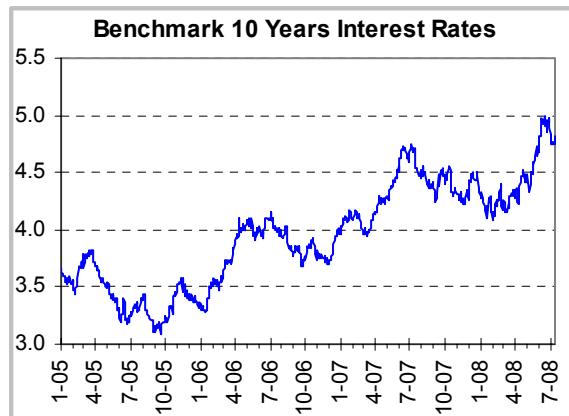
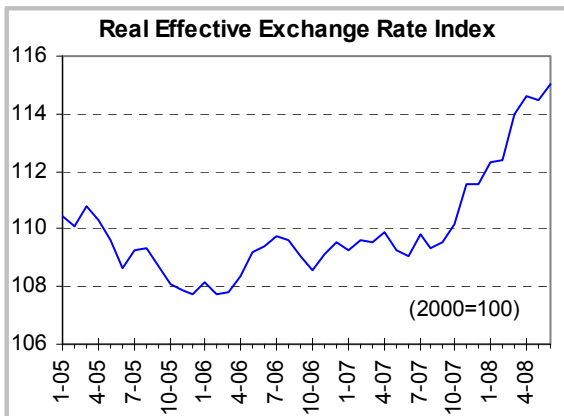
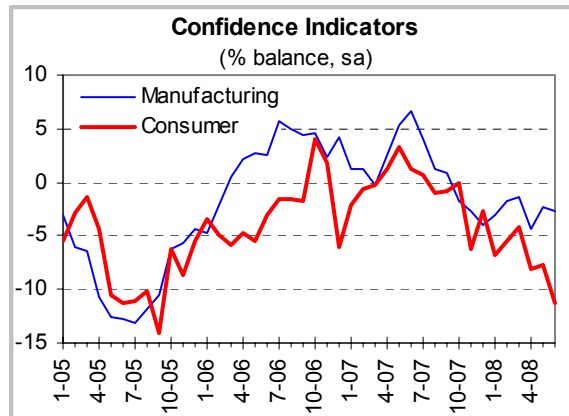
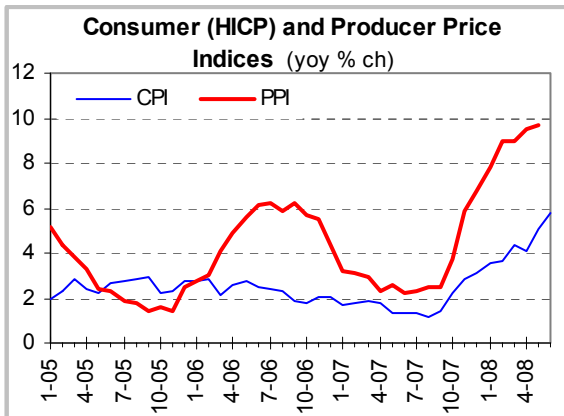
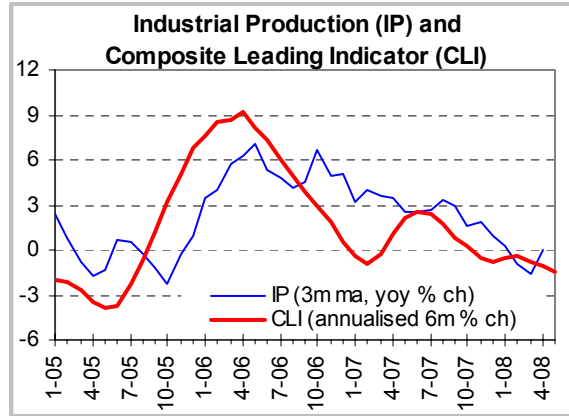
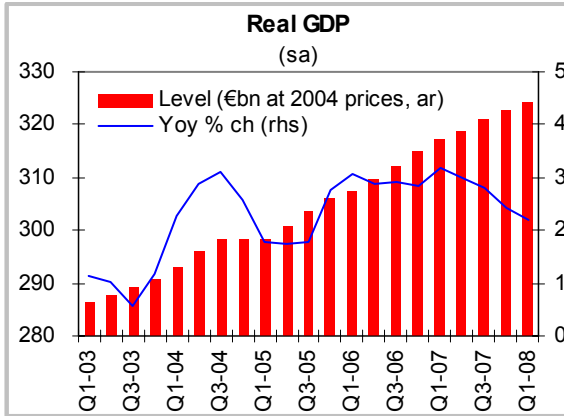
Notes:

* Average over year; ** % change on 31/12/07

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

- After a very dynamic 2007, output growth weakened in early 2008 (+2.2% yoy from 2.4% in Q4 07). The breakdown of data shows that all components of GDP slowed in the first quarter of 2008. Specifically, private consumption decelerated to 2.0% yoy after it hit a seven-year high of 2.4% in 2007. Fixed investment also weakened, which was mainly due to investment in housing (+2.4% yoy from +2.9% yoy in Q4 07), as well as public investment. By contrast, business investment continued to run at a sustained pace (+9.3% yoy), while net exports contributed negatively.
- Last June consumer survey reveals that consumers have become increasingly pessimistic. Indeed, the consumer confidence index declined further and hit its lowest level since September 2005. In addition, the composite leading indicator remains in negative territory, confirming that the trend for the economy is tilted to the downside.
- According to the Central Bank, in the next months all GDP components will contribute to the expected slack. Following a gradual recovery in the two preceding years, a downturn in exports of goods and services is in the cards, in line with flagging foreign demand and the appreciation of the euro. On the domestic spending front, business investment is likely to falter owing to a less favourable demand outlook and tightening external financing conditions. In a context of cooling property prices, housing investment is set to maintain the decelerating path which began in 2007. Private consumption is also expected to weaken significantly, mainly as a result of an only meagre increase in households' purchasing power.
- Consumer price inflation hit its highest level in 25 years in June (+5.8% yoy), following the upward trend that was apparent since late 2007. In this regard, it is worth noting that inflation in Belgium has risen faster than in most other European Union countries also given the higher weight of petroleum products.

BELGIUM



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

ITALY

Real Indicators*	2005	2006	2007	Latest
GDP (wda)	0.7	1.9	1.4	0.3 Q1
Industrial Production	-0.7	2.4	-0.2	-1.4 May**
Construction Investment	0.8	1.7	2.0	0.2 Q1
Consumer Prices - Harmonised Index***	2.2	2.2	2.1	4.0 Jun
Producer Prices***	4.0	5.6	3.5	7.5 May
Hourly Rates - Industry, excl.Construction***	2.7	3.3	2.7	3.2 May
Standardised Unemployment Rate (%)	7.7	6.8	6.2	6.5 Q1
Current Account Balance (€bn)	-23.6	-38.5	-37.4	-45.3 Q1°
as a percentage of GDP	-1.7	-2.6	-2.4	-2.9
Real Effective Exchange Rate Index§	110.8	110.5	111.5	114.1 Jun

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; °latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.18	3.08	4.28	4.94 Jun
Long Term Interest Rate pa (benchmark 10y)	3.56	4.05	4.49	5.11 Jun
Stock Exchange (MIBTEL) Index (% ch)*	18.9	15.6	9.8	-27.5 17/07/08**

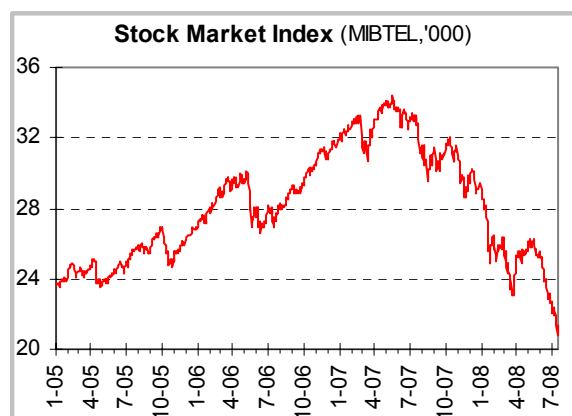
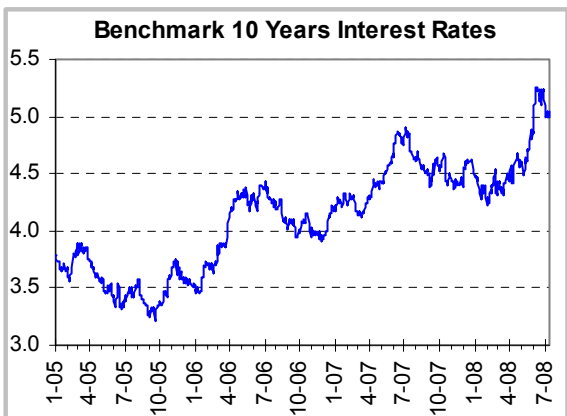
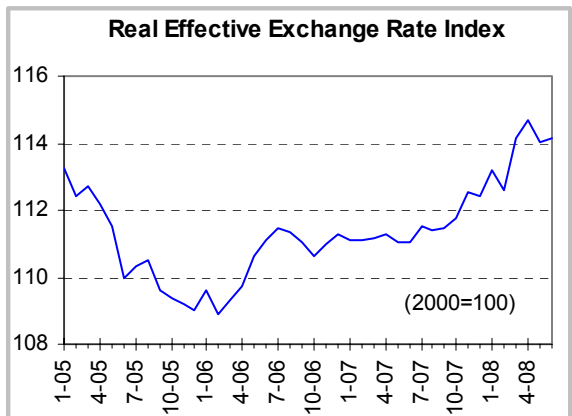
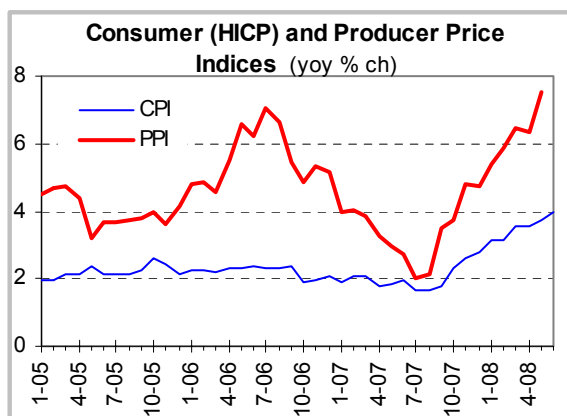
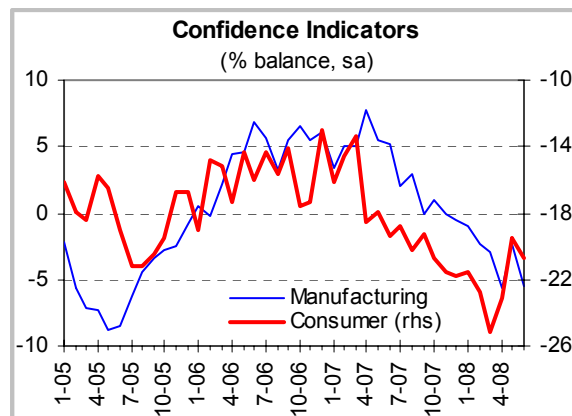
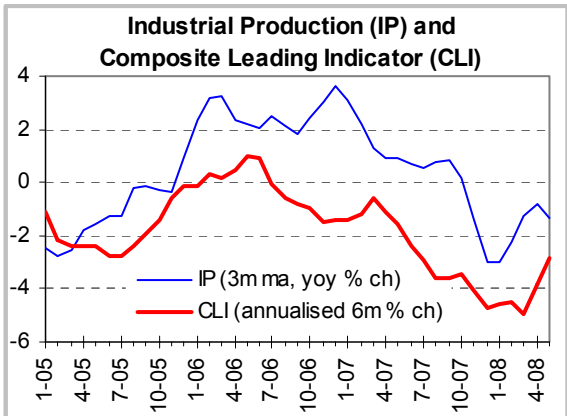
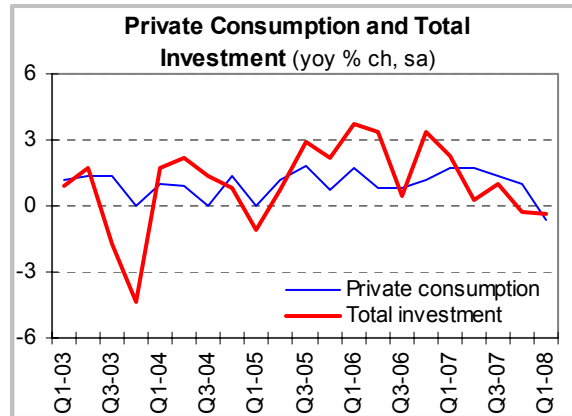
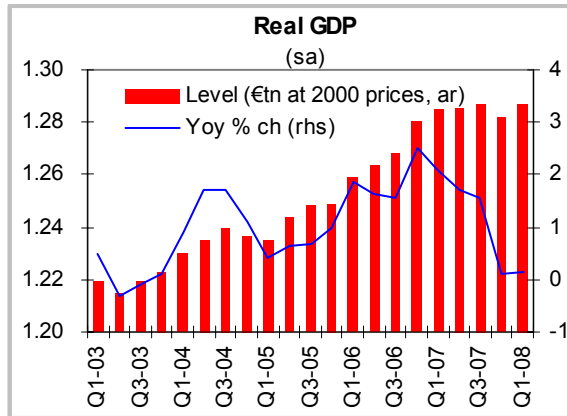
Notes:

* Average over year; ** % change on 31/12/07

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

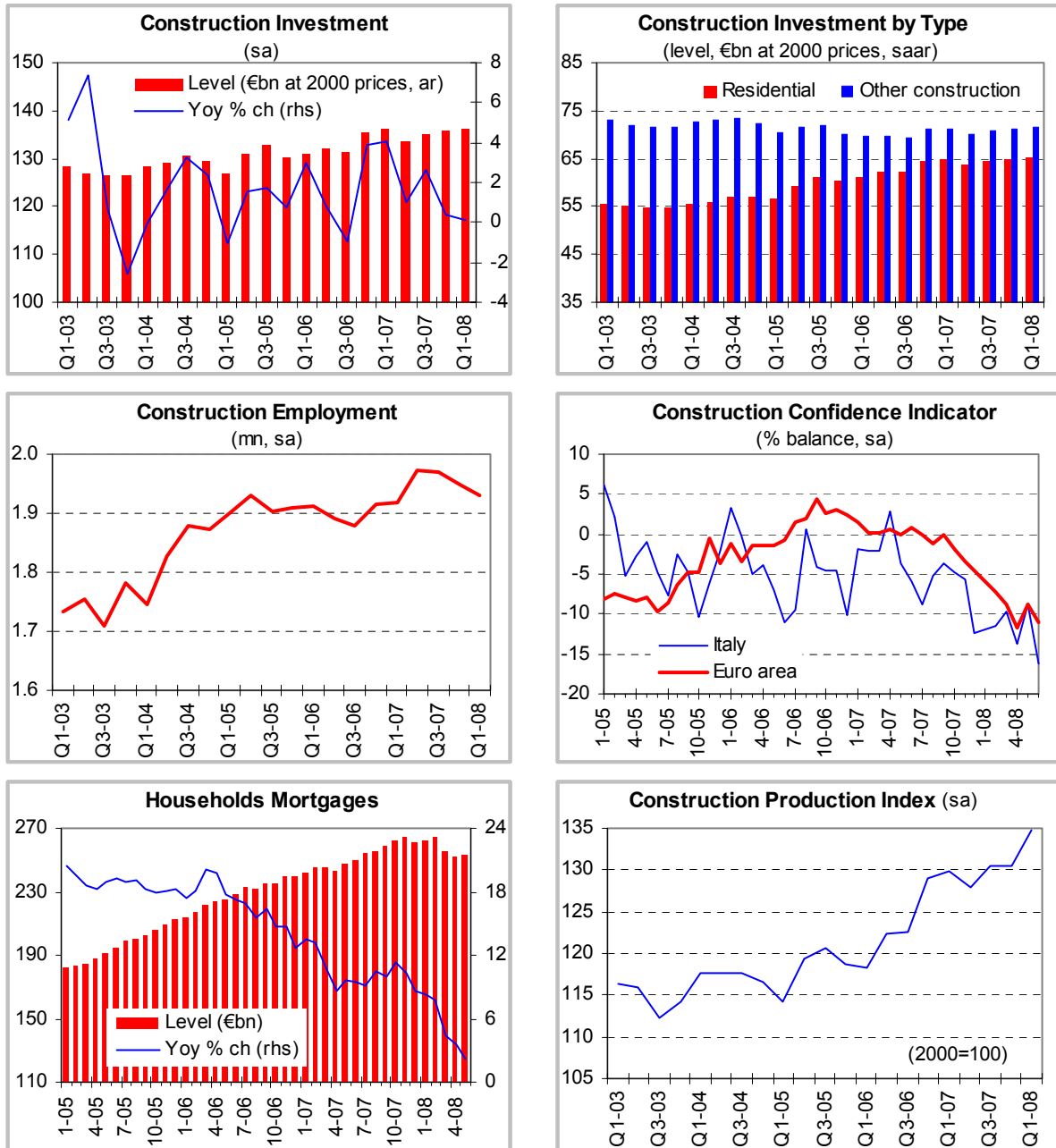
- Despite a stronger than expected Q1 08, the Italian economy remains fragile and flirts with stagnation. While a boost from net external demand allowed GDP to rebound (+0.5% qoq) from the previous negative performance, domestic demand continued to weaken and grew by only 0.2% yoy against a +1.8% in Q1 07, remaining almost flat on the previous quarter. Both private consumption and investment are showing worrying signs of sluggishness.
- In fact, the positive net trade contribution is only in part due to the resilience of Italian exports. Import volumes fell in both Q4 07 and Q1 08 as a consequence of the slowing domestic demand. The contraction in Q1 08 was also amplified by a drawdown of stocks.
- The GDP growth differential with the euro area is widening again, a clear signal of Italy's structural problems as the economy reacts more severely than other euro partners to an unfavourable global environment. Inflation hit a 12-year high in June at 4% but remains in line with the euro average, while at the producers level price dynamics is slightly faster in Italy than in the euro area (7.5% vs 7.1% in May).
- Industrial production declined sharply in May (-4.1% yoy) bringing the Jan-May average to -1.1% yoy.
- The election-related blip in confidence last May is being rapidly eroded and both consumer and business sentiment are again turning downwards. In particular, consumer confidence is drawing close to last March level which had marked the lowest one in four years. Not surprisingly retail sales dropped in April for the second consecutive month and anecdotal evidence points to very weak seasonal sales this July. Depressed confidence levels, higher interest rates which severely dent households' purchasing power via increased mortgage payments, accelerating inflation particularly for items such as housing, tariffs, food and transport, a weaker labour market with unemployment is again on the rise, the strong euro and a slowing external demand: all this will result in a sluggish performance not only in Q2 but also in the coming months.
- The new government has pledged it will continue on the fiscal consolidation road. Apart from cautious income supporting measures implemented recently, the economy cannot rely on a fiscal stimulus to regain momentum. Nevertheless, some fiscal slippage is expected.

ITALY



Sources: OECD, ISTAT, BIS, daily press

Business Conditions in the Construction Sector



Sources: ISTAT, European Commission, Banca d'Italia

- Construction investment grew by 0.2% yoy in Q1 08, the weakest performance since Q3 06.
- As for the housing sector (+0.3% yoy), there are growing signs of demand saturation particularly as far as new home sales are concerned. In addition, interest rates rises have started to bite, the time needed to sell an apartment is widening and housing prices are slowing down. On the positive side, the ongoing sub-prime crisis in the US has had a limited impact on national banks so far and households' indebtedness is much lower than in many other EU countries.
- The non residential component is expected to subside in 2008 due to the weakening macro-economic context and less favourable financing conditions.
- The new government is committed to an ambitious plan (currently estimated worth €174bn) to complete the so-called "Objective Law" and aimed at upgrading and widening the infrastructure grid. Given the existing budget constraints, more than 2/3 of the needed funds in a three year horizon (€44bn) should be raised through the private sector. Worries are, however, mounting relative to the short term perspectives, given the ongoing retrenchment of government capital spending.

SPAIN

Real Indicators*	2005	2006	2007	Latest
GDP (wda)	3.6	3.9	3.8	2.7 Q1
Industrial Production	0.8	3.9	1.9	3.4 May**
Construction Investment	6.1	6.0	4.1	1.5 Q1
Consumer Prices - Harmonised Index***	3.4	3.6	2.8	5.1 Jun
Producer Prices - Manufacturing***	4.9	5.3	3.3	7.9 May
Hourly Earnings***	3.5	4.2	3.4	3.2 Q4
Standardised Unemployment Rate (%)	9.2	8.5	8.3	9.9 May
Current Account Balance (€bn)	-66.9	-87.7	-105.8	-110.9 Q1°
as a percentage of GDP	-7.4	-8.9	-10.1	-10.4
Real Effective Exchange Rate Index§	114.4	115.9	118.0	122.5 Jun

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	2.18	3.08	4.28	4.94 Jun
Long Term Interest Rate pa (benchmark 10y)	3.39	3.78	4.31	4.79 Jun
Stock Exchange (MSE) Index (% ch)*	23.3	24.9	23.1	-23.9 17/07/08**

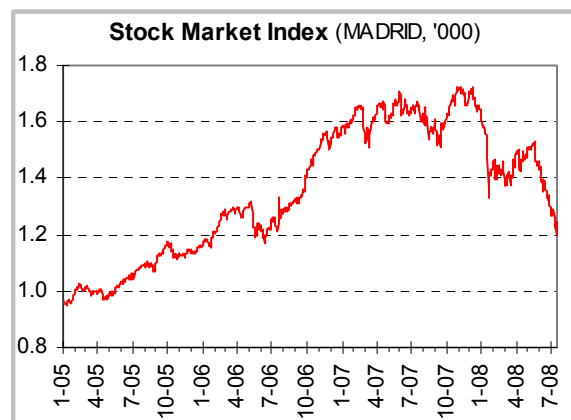
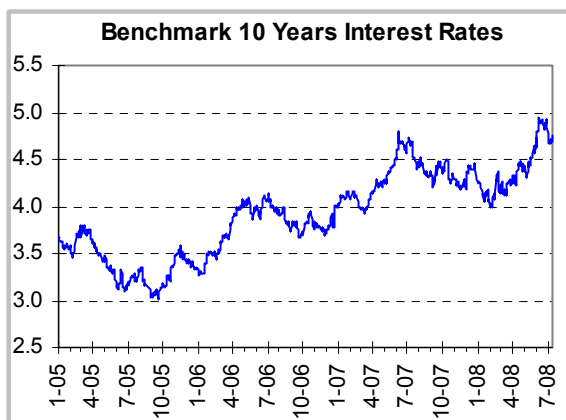
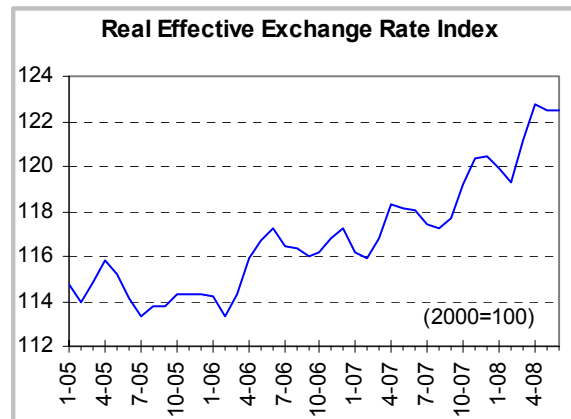
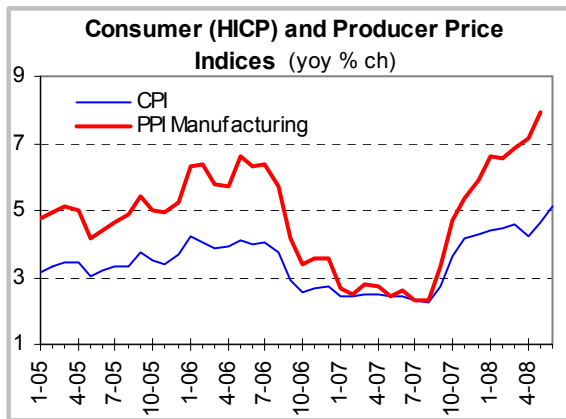
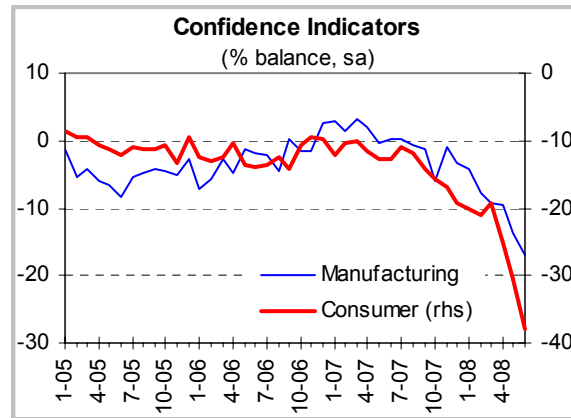
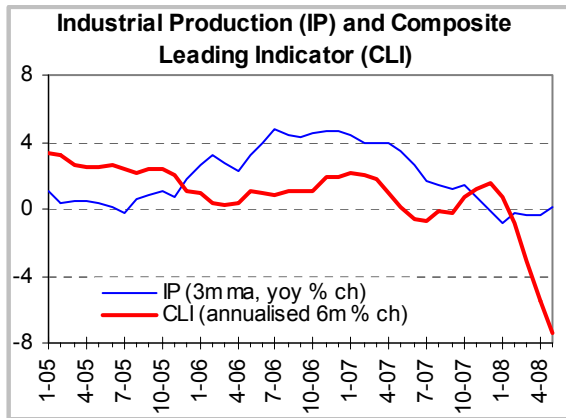
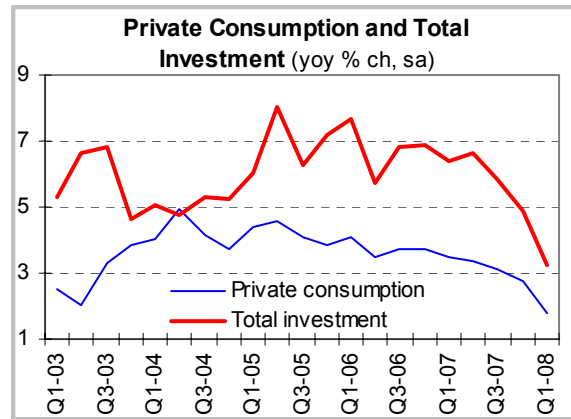
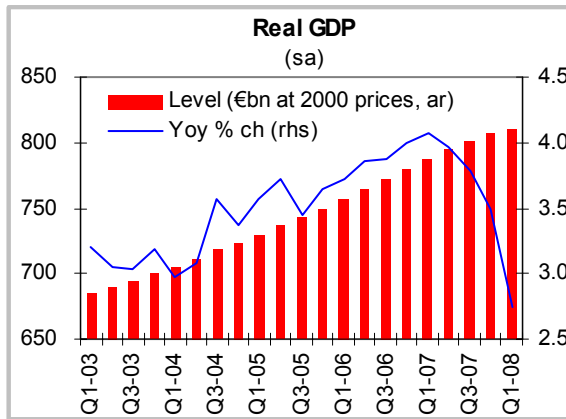
Notes:

* Average over year; ** % change on 31/12/07

Sources: OECD, INE, BIS, daily press

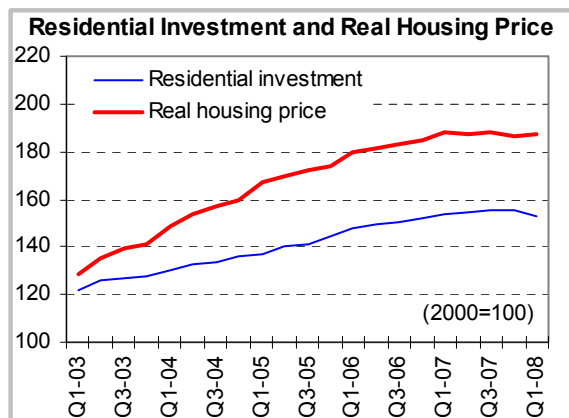
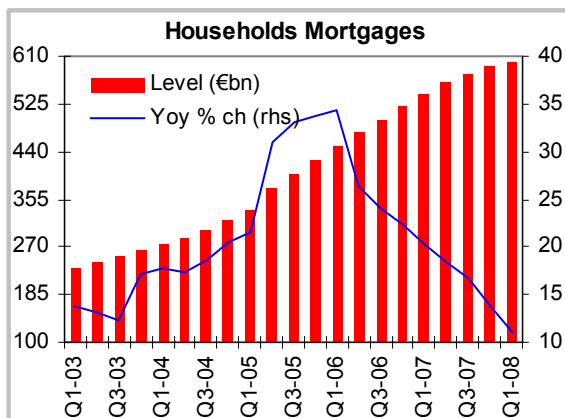
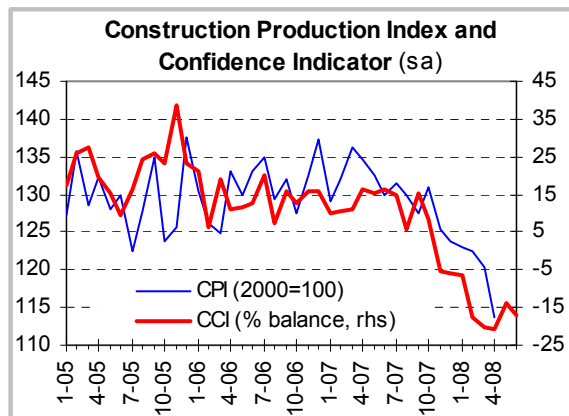
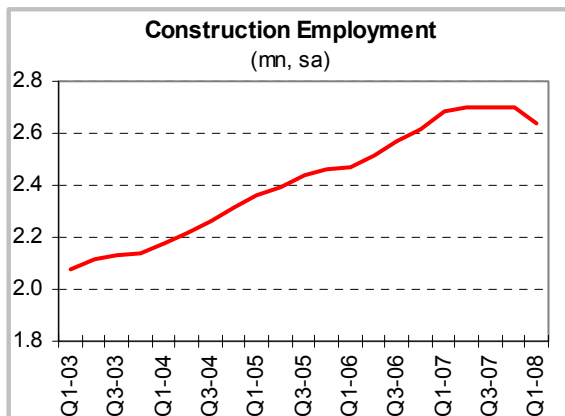
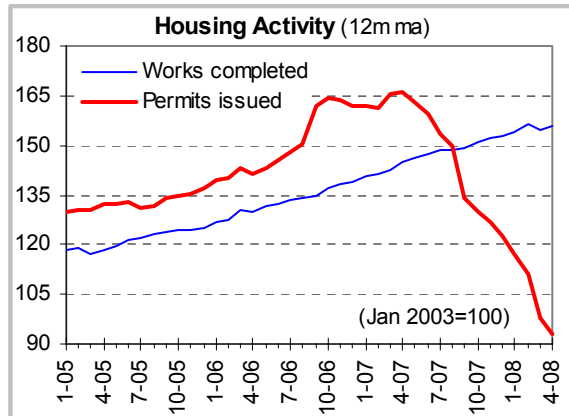
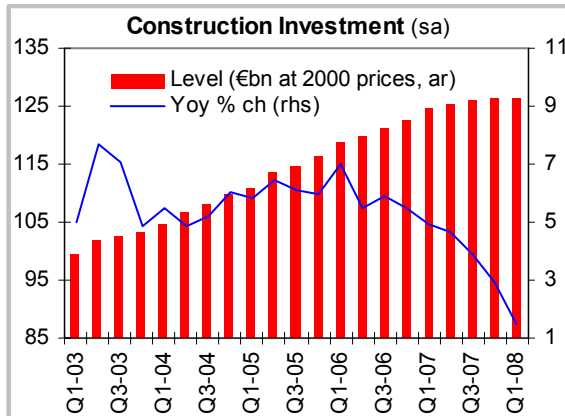
- The slowdown that began in 2007 continues and is at last evident in national accounts data. With a GDP increase of just 0.3% qoq, Spain has posted its lowest performance since 1995 and for the first time in four years growth has dipped below the 3% yoy threshold.
- The government's rather optimistic hopes that the downturn might be limited to the housing market have been firmly dashed. In April retail sales in volume fell for the fifth consecutive month, while in May new car sales recorded their biggest monthly contraction since 1992. On the whole, industrial production (IP) slumped in May, posting its steepest decline since 2001. Stalling in IP reflects also the continued erosion of Spain's competitiveness: the combined impact of an over-valued exchange rate and above-EU average inflation is clearly hampering export.
- Leading indicators are now pointing to a broad-based deterioration of the economic climate. In just a few months, households' confidence has plummeted. The business confidence indicator has also rapidly deteriorated reaching its lowest level since the survey began in 1999 and is currently pointing to a virtual stagnation over the coming quarters.
- In order to prevent a full-blown recession, the government has implemented a fiscal stimulus thanks to its large-scale budget surpluses (2% of GDP). A tax rebate of €400 per taxpayer, and support for the most indebted households and job seekers, are being rolled out to prop up consumption. As for businesses, the reduction in the company income tax to 25% for small and medium-sized enterprises and to 30% for the largest ones should help corporates to face the downturn.
- However, the Governor of the Bank of Spain does not consider the above economic measures to be adequate and is calling for reform of the labour market, changes to collective wage negotiations that would end the link between salary increases and inflation, and greater austerity measures from the regional governments.
- Consumer prices rose to 5.1% yoy, the highest level since January 1997, and up from a recent low of 2.2% yoy in August 2007. Worryingly, significant second-round effects are already apparent in the inflation figures.

SPAIN



Sources: OECD, INE, BIS, daily press

Business Conditions in the Construction Sector



Sources: INE, European Commission, Banco de Espana, OECD

- Construction sector posted in Q1 08, its worst performance since Q2 02 (+1.5% yoy).
- Housing is in the midst of an unprecedented slump. Residential construction permits declined by 60% yoy in the first quarter. New housing starts are set to fall to about 300k in 2008 from 760k in 2006, triggering a significant knock-on effect on auxiliary services and employment. The deceleration in housing prices has been gradual but cooling demand and the ongoing drop in the number of new mortgages point to an accelerating downward trend in the months ahead.
- Also for private non residential investment prospects are becoming less and less brilliant, as the segment could be affected soon by the residential sector's contraction.
- Public works should remain dynamic as the public sector is in a fiscal position which allows anti-cyclical policies to be implemented. The 2008 budget contains a 13% increase in investment allocated to the Ministry of Public Works, and an over 25% increase to the Ministry of the Environment. The PEIT (Spanish acronym for Plan Estratégico de Infraestructuras y Transportes) is underway and represents the most important plan of public infrastructures for the period from 2005 to 2020 (worth around €249bn).

GREECE

Real Indicators*	2005	2006	2007	Latest
GDP	3.9	4.1	4.0	3.6 Q1
Industrial Production	-0.7	0.6	2.0	-4.3 May**
Construction Investment	-1.0	21.6	4.0	
Consumer Prices - Harmonised Index***	3.5	3.3	3.0	4.9 Jun
Producer Prices – Manufacturing***	5.4	6.4	2.7	10.5 May
Standardised Unemployment Rate (%)	9.9	8.9	8.3	7.8 Q1
Current Account Balance (€bn) ***	-14.3	-23.7	-32.3	-31.7 Q1°
as a percentage of GDP	-7.2	-11.1	-14.1	-13.6
Real Effective Exchange Rate Index [§]	113.2	113.9	116.2	121.4 Jun

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa	2.18	3.08	4.28	4.94 Jun
Long Term Interest Rate pa (benchmark 10y)	3.59	4.07	4.50	5.17 Jun
Stock Exchange (ASE) Index (% ch)*	29.4	26.8	22.2	-35.7 17/07/08**

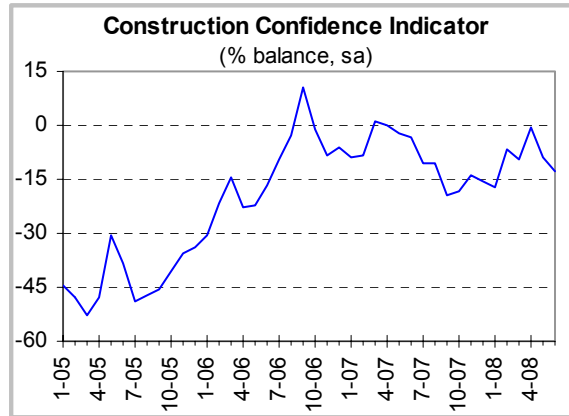
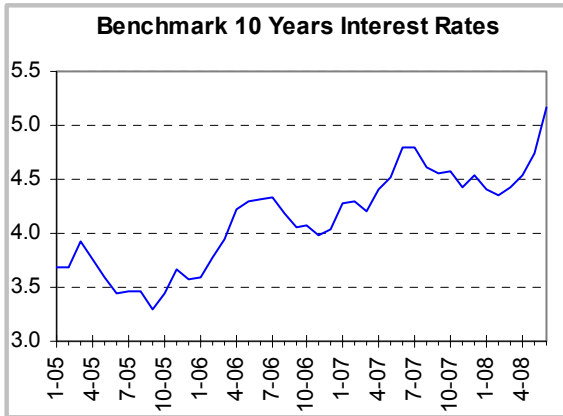
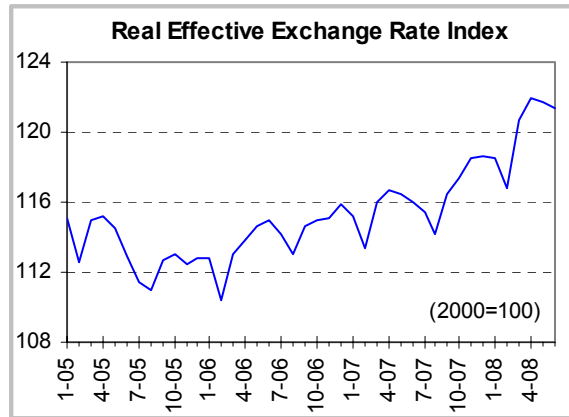
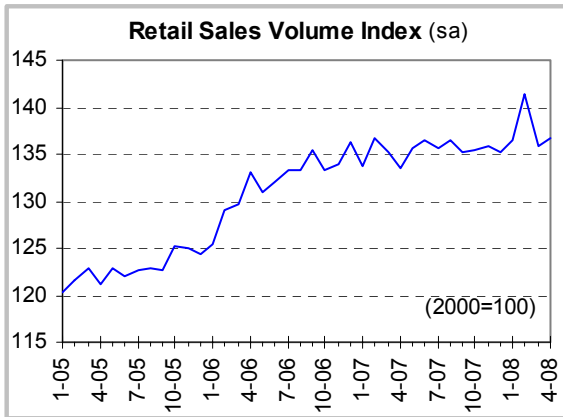
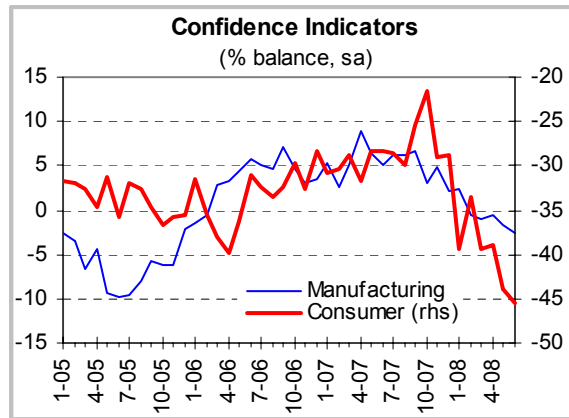
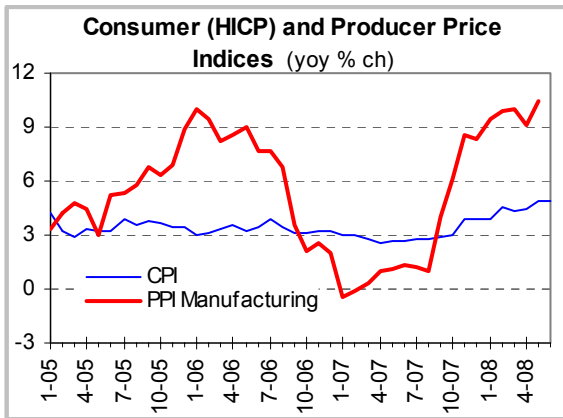
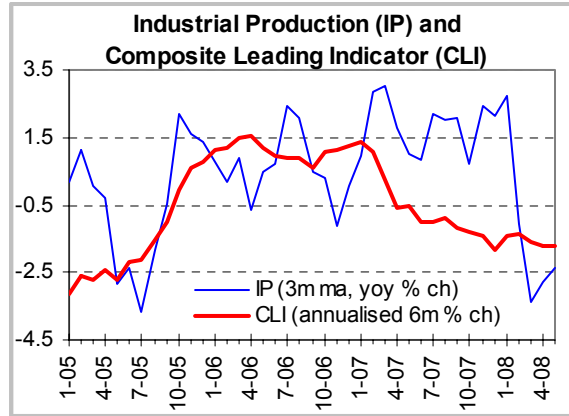
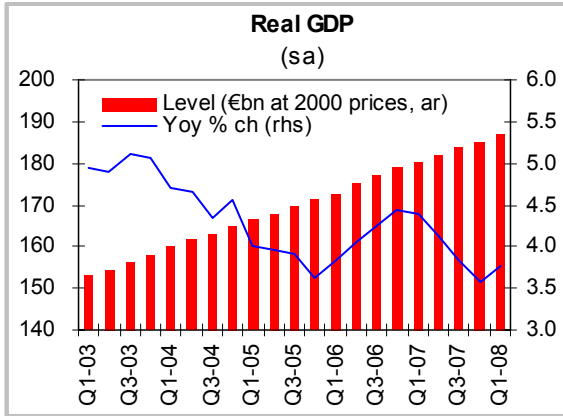
Notes:

* Average over year; ** % change on 31/12/07

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

- GDP grew by 3.6% yoy during the first quarter of 2008, matching the increase recorded in the previous quarter.
- Private consumption rose by 2.3% yoy, although it actually fell by 0.2% qoq (the first drop since 2000); this shows that an accelerating inflation is starting to dent households' spending decisions. Furthermore, investment contracted for the second quarter in a row (-6.8% yoy), while net exports gave a positive contribution to growth, as softening export (+4.1% yoy, down from +7.1% in Q4 07) was counterbalanced by plunging import (-7.8% yoy).
- In May, industrial production recorded its sharpest contraction since December 2001 (-6.6% yoy). Although the transport strikes, which hit the country during May, have had an impact on this dreadful figure, the deceleration in industrial production was highly expected, as the combination of a strong euro, high oil prices, and weaker growth among Greece's trade partners has started to bite.
- Furthermore, the overall economic sentiment has also been deteriorating driven by the decrease of most of its sub-indices (mainly the industrial and the construction ones); particularly, consumer confidence plunged in June to its lowest level since data started to be collected.
- Inflation stood at 4.9% yoy, unchanged from May, and it is expected to remain elevated for several months to come, as high energy and food prices continue to exert significant upward pressure. Although core inflation stayed high during June, hinting that higher commodity prices have started to spill over to the rest of the economy, softer output growth and higher interest rates should help to moderate wage increases in the coming months.
- Construction investment is set to decelerate sharply as tighter lending conditions will weigh down activity in the housing market. A perspective slowdown is also confirmed by the strong contraction in building permits (-46.6% yoy in March), the downward trend of construction confidence and the deceleration of house price growth.

GREECE



Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2005	2006	2007	Latest
GDP	6.2	6.3	6.1	7.0 Q1
Gross Fixed Capital Investment	22.4	13.7	23.3	15.5 Q1
Industrial Production - Manufacturing	8.1	7.3	8.3	5.8 May
Consumer Prices	5.0	7.3	8.4	15.3 Jun
Producer Prices - Manufacturing	7.2	6.3	7.6	16.0 May
Unemployment Rate (%)	11.5	9.6	7.7	6.2 May
Current Account Balance (US\$bn)	-3.4	-5.7	-8.6	-9.1 Q1°
as a percentage of GDP	-12.4	-17.8	-21.5	-21.3
Real Effective Exchange Rate Index [§]	121.1	126.5	134.3	146.2 Jun

Notes:

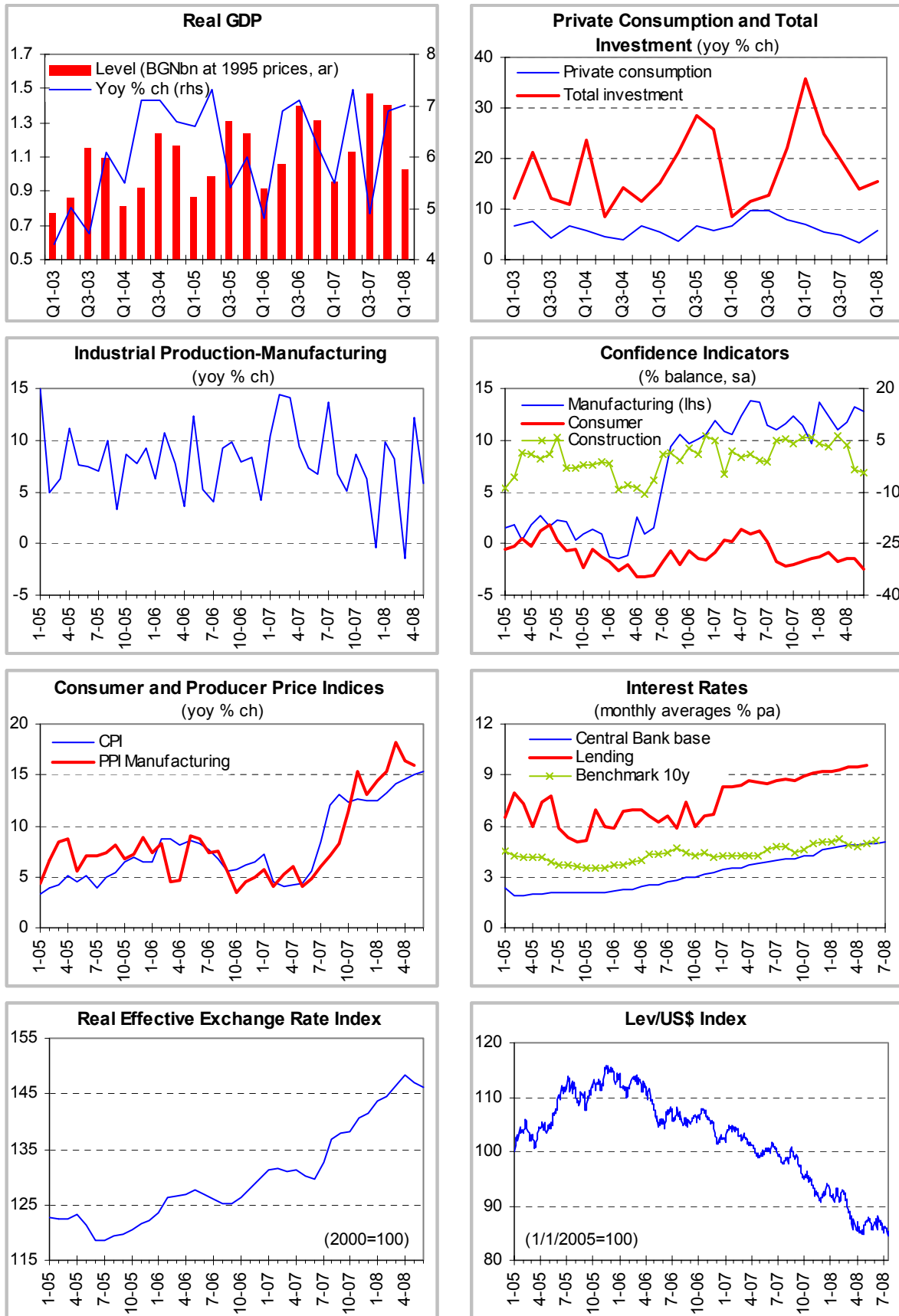
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (sofibor o/n)	2.1	2.9	4.1	5.1 May
Short Term Interest Rate pa (sofibor 3m)	3.6	3.7	4.9	6.9 May
Long Term Interest Rate pa (benchmark 10y)	3.9	4.2	4.5	5.2 Jun

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

- GDP growth retained its momentum in Q1 08 (+7% yoy) driven by domestic demand and strong exports. Despite an unfavourable external economic environment, Bulgarian real exports performed well (+9.2% yoy), a likely signal that several years of very substantial foreign investment have increased export capacity and competitiveness. As import grew less than export the net external contribution turned positive (+0.3%) for the first time since 2004. There was also a significant drag from inventory which was the result of stronger than expected overall activity.
- The impressive export performance is however not enough to reverse the alarming external accounts trends. The trade deficit is now being exacerbated by the oil price spikes and the current account deficit soared to an impressive 21.5% of GDP in 2007. Preliminary data on Q1 08 show that the size of the imbalance remains worrying.
- Inflation is now at 15.3% (June) but has decelerated its monthly pace - in fact, the mom rate for June was -0.2%. Increases in tobacco excise duties and in households energy costs coupled with second round effects from wages (given wage indexation is still in place) will continue to exert upward pressure on prices. However, food inflation should somewhat subside as the sharp rises of last August due to extreme weather conditions wane and agriculture output returns to normal levels.
- The government surplus hit a record +3.8% of GDP, well above the government's projections, and data for Q1 08 show that the surplus has continued to expand impressively thanks to an increase of 34% in revenues against a +13% of budgetary expenses on a yoy comparison. This in part reflects very strong EU advance payments under structural, cohesion and agricultural programmes (although the suspension of funds announced in March will affect future receipts). On the other hand, tax revenues increased dramatically after the government cut both corporate and income taxes to 10% (a single flat tax rate) at the beginning of 2008. Bulgarian public debt stands now at 16.8% of GDP (as of March), its lowest level since transition began in 1989.
- Under the currency board arrangement the Bulgarian National Bank (BNB) has limited margins in adjusting monetary conditions. However, about rapid credit growth caused the BNB not only to gradually raise the policy interest rate, albeit by only 38bp since the start of the year, but also to increase the minimum reserve ratio to 12%, from 8% and to consider further tightening of the regulations on bank lending.

BULGARIA



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

EGYPT

Real Indicators*	2005	2006	2007	Latest
GDP	5.6**	7.0	7.3	7.5 Q1
Construction Production (Gross Value Added)	5.0**	14.0	15.8	15.1 Q1
Consumer Prices	4.9	7.6	9.4	20.2 Jun
Producer Prices				32.9 May
Unemployment Rate (%)**	11.2	10.6	9.0	9.1 Q4
Current Account Balance (US\$bn)	2.0	2.7	0.5	0.2 Q1°
as a percentage of GDP	2.1	2.3	0.3	-0.1
Real Effective Exchange Rate Index [§]	72.7	75.8	79.7	80.5 Dec

Notes:

* yoy % ch, nsa, unless otherwise indicated; ** fiscal year ending 30th June (i.e. figures for the year 2005 cover the period 1/7/2004 to 30/6/2005); *** mom % ch; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Discount Rate (end of period)	9.0	9.0	9.0	10.0 Jul
Short Term Interest Rate pa (91 days T-Bill)	9.5	8.8	7.9	9.7 Jun
Stock Exchange (HERMES) Index (% ch)*	169.4	10.7**	29.2	-12.4 17/07/08°

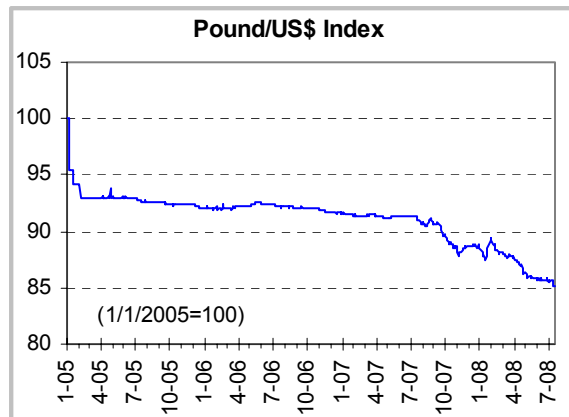
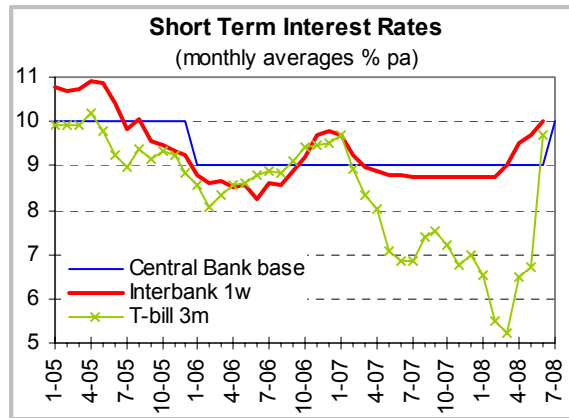
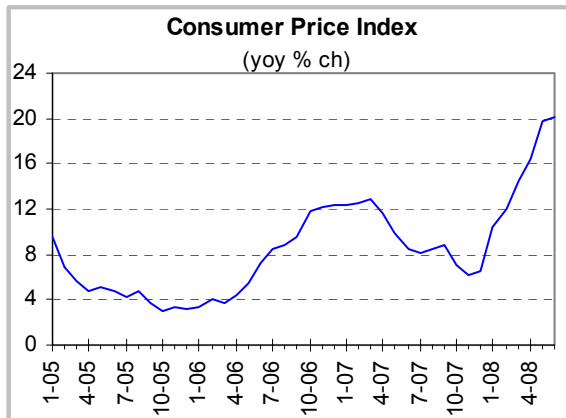
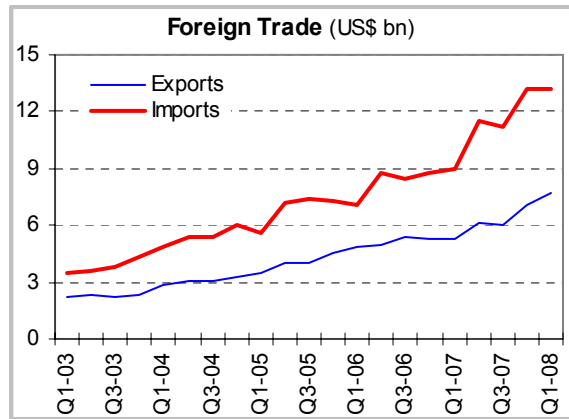
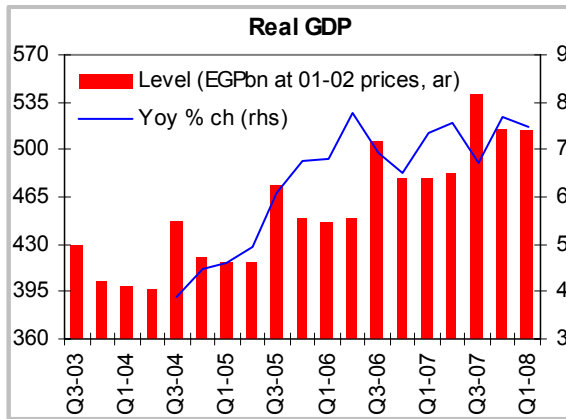
Notes:

* Average over year; CSE Index for 2005, new series starting from 01/01/2006: HERMES Index; ** yoy % ch at year-end; ° % change on 31/12/07

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

- Preliminary national accounts data for Q1 08 confirm the strong momentum in GDP growth (+7.5% yoy) driven by the Suez Canal, tourism, communications and construction. Construction activity in particular keeps its robust pace (+15.2% yoy), albeit marginally slowing down. Massive inflows from the Gulf countries are mainly financing tourist projects while public investment and public/private partnerships are focussing mostly on infrastructure (from road development to port and airport construction to social housing programmes).
- Looking more in detail, growth shows some potential fragility on the expenditure side. While investment remains an extremely dynamic demand component, increasing by 25.5% yoy in Q1 08, private consumption growth remains relatively weak (3.8% yoy in Q1 08). Data should be interpreted with caution, given the still unsatisfactory statistical quality - private consumption is volatile also because it is calculated as a residual. However, the ongoing acceleration in inflation is undoubtedly impacting on consumption negatively, and will continue to do so.
- As widely expected inflation continued to accelerate reaching 20.2% yoy in June mainly due to higher energy and food prices. Also the May hikes to fuel prices and tobacco sales tax, which were implemented to offset increases in public-sector wages (+30% effective from June) and subsidies, added some upward pressure. The authorities have also placed an export ban on cement (from April to October 2008) and rice (from April 2008 to April 2009) to hold down domestic prices. Inflation is proving an extremely sensitive issue which is feeding bouts of social unrest and may put a brake on overall growth.
- The Central Bank raised its policy rate again on June 26th - the fourth time this year making up a cumulative +175bp - worried about the sharp acceleration of food price inflation (+27% in June), which is pushed up also by the scarcity of subsidised food items and might persist should grain crops suffer from recent adverse weather conditions. However, the effectiveness of monetary tightening is limited, given the government's generous wage hikes and expansionary fiscal policy.
- The Egyptian pound continued to strengthen under the complacency of the Central Bank which hopes that this could help stem inflation.

EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2005	2006	2007	Latest
GDP	1.7	7.3	2.0	7.0 Q1
Construction Production (Gross Value Added)	5.9	7.9	10.2	10.3 Q1
Industrial Production	2.6	3.7	4.6	5.6 Q1
Consumer Prices	1.0	3.3	2.0	4.7 Jun
Producer Prices - Manufacturing	9.1	5.9	1.8	22.5 May
Urban Unemployment Rate (%)	18.4	15.5	15.4	14.7 Q1
Current Account Balance (US\$bn)	1.1	1.4	-0.1	-1.4 Q1°
as a percentage of GDP	1.9	2.2	-0.1	-1.8
Real Effective Exchange Rate Index [§]	91.8	92.9	92.6	92.8 Mar

Notes:

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa	2.8	2.6	3.3	3.1 Jun
Stock Exchange (MASI) Index (% ch)*	10.9	57.2	55.1	13.2 17/07/08**

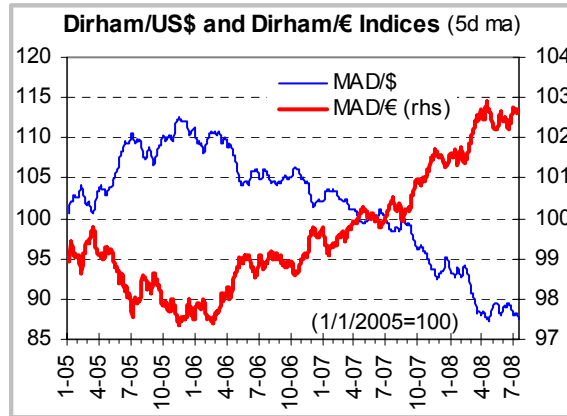
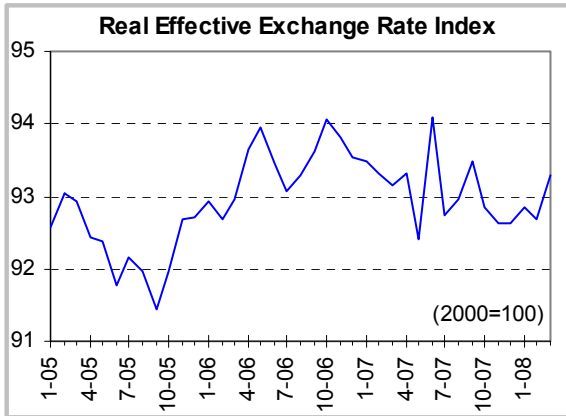
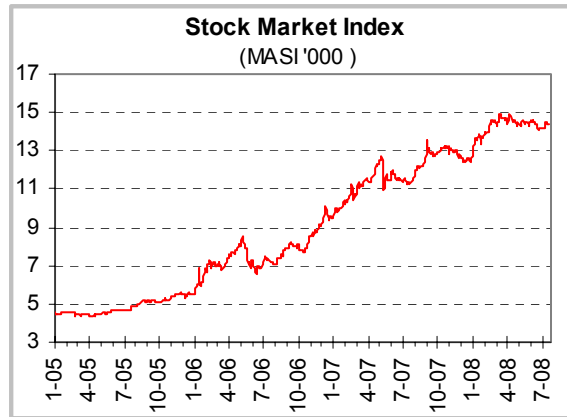
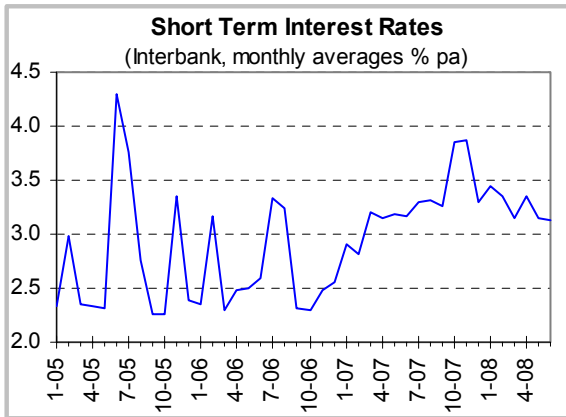
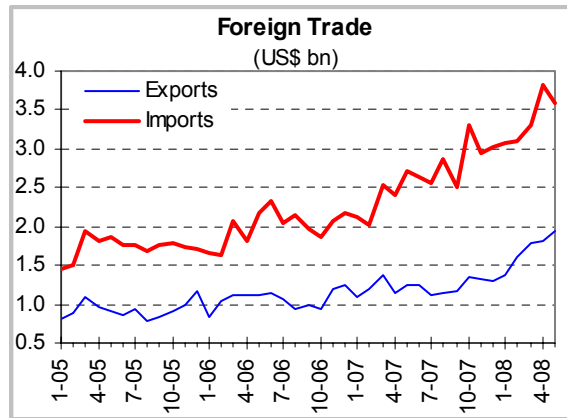
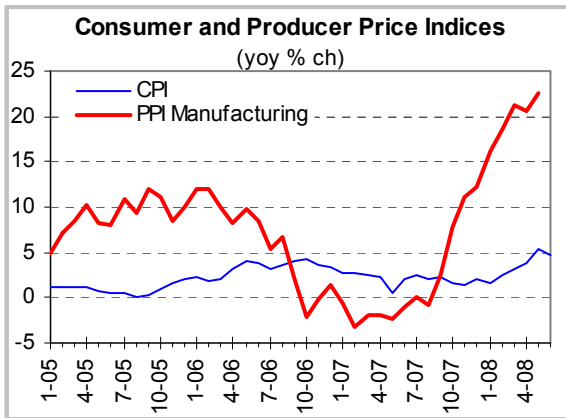
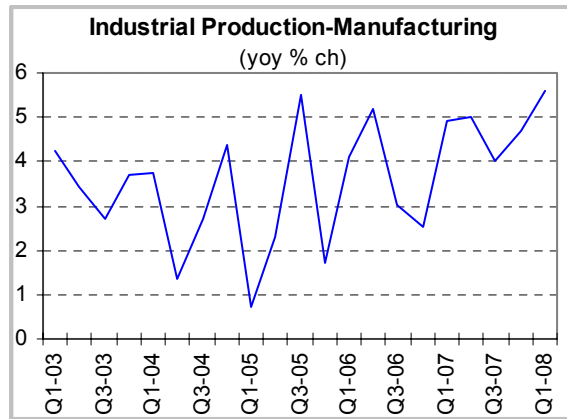
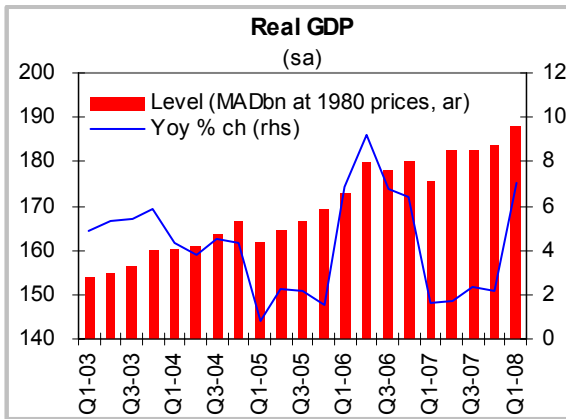
Notes:

* Average over year; ** % change on 31/12/07

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

- Growth picked up again in Q1 08 following last year sharp slowdown. In 2007 GDP expanded by only 2.7% held back by a dramatic contraction in cereal production. The robust economic expansion in Q1 08 (+7% yoy) was driven by the rebound in agriculture (+9.5%) and by healthy performances in commerce, manufacturing, financial services, transport and communication sectors.
- Construction continues to run at a brisk pace. The sector expanded by just over 10% in 2007, the highest result in a decade, despite the weak overall GDP performance, and kept this pace in the first three months of the year. Activity is driven by government efforts at improving the country's infrastructure (ports, rural roads, highways, and dams) as well as implementing the massive social housing plan also via fiscal incentives. In this regard, the government incorporated seven social housing institutions into the state owned Al Omrane holding group in order to boost efficiency. The other powerful engine is the tourist sector where a host of projects is underway.
- The pick up in inflation has so far failed to prompt a monetary response. The strong *dirham* and the government control on food prices have helped contain inflation at the consumers' level, although at factory level prices run at over 20% yoy. In addition, the government raised some fuel prices on July, 1st.
- Despite the strong rise in phosphate exports the trade deficit has widened mainly due to the growing energy bill. However, the external position remains solid, thanks to still robust workers' remittances, growing tourism revenues and healthy foreign direct investment inflows attracted by the scale of the new infrastructure, tourism and property projects.
- According to a recent Central Bank report, the 2007 budget was almost on balance, following a string of relatively large deficits in the past ten years, mainly thanks to increased tax revenues. Notably, for the first time corporate revenues surpassed personal income revenues on account of strong performances of firms operating in telecommunication, financial, cement, and energy sectors. The 2008 expansionary budget is going to push the deficit close to 4% of GDP again given the increased subsidy bill on fuel and foodstuff and the higher spending on social development schemes (i.e. housing, schools, etc.).
- The *dirham* has appreciated around 6% against the dollar since the start of the year as the currency regime is a tightly managed float against a basket of currencies dominated by the euro.

MOROCCO



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

TURKEY

Real Indicators*	2005	2006	2007	Latest
GDP**	8.4	6.9	4.5	5.9 Q1
Industrial Production**	5.4	5.9	5.3	-2.4 May***
Construction Investment	10.9	17.8	6.0	1.5 Q1
Consumer Prices	8.2	9.6	8.8	10.6 Jun
Producer Prices - Manufacturing	7.6	9.3	5.6	17.2 Jun
Unemployment Rate (%)	10.2	9.9	9.8	9.6 Apr
Current Account Balance (US\$bn)**	-22.1	-31.9	-37.5	-40.3 Q1°
as a percentage of GDP	-4.6	-6.0	-5.7	-5.6
Real Effective Exchange Rate Index [§]	108.1	107.3	116.7	118.1 Jun

Notes:

* yoy % ch, nsa, unless otherwise indicated; ** sa; *** mom % ch ; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	14.8	15.6	17.2	16.0 Jun
Stock Exchange (IMBK) Index (% ch)*	47.9	35.5	21.1	-32.1 17/07/08**

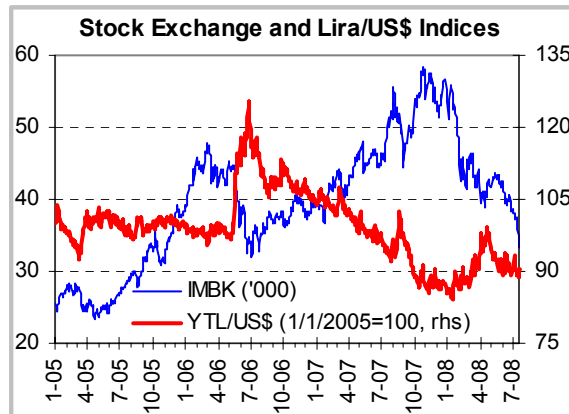
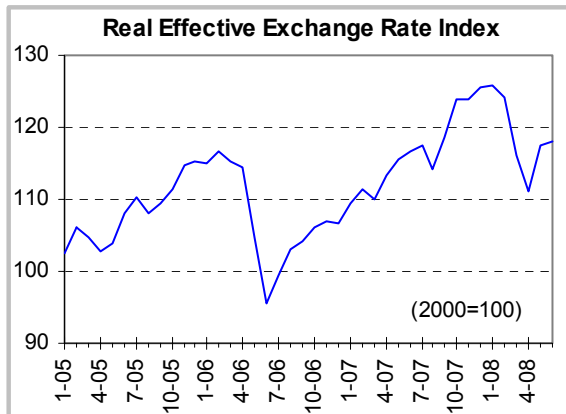
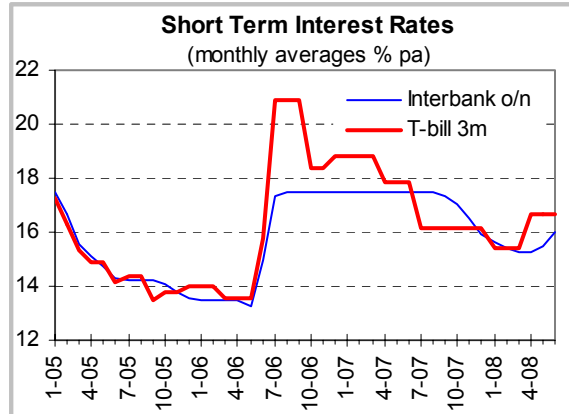
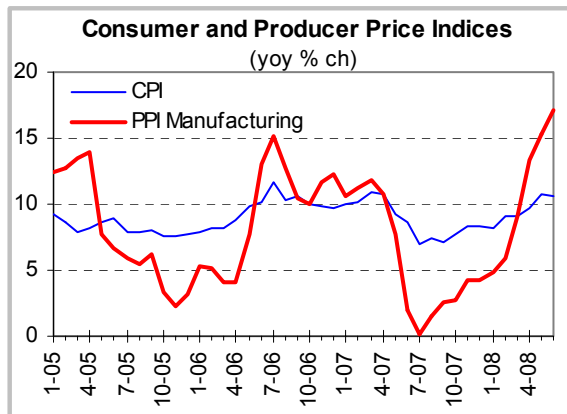
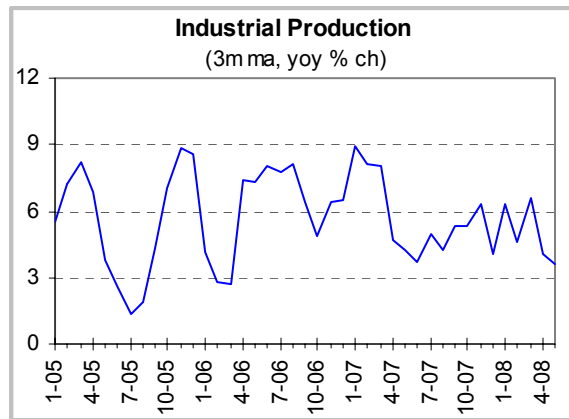
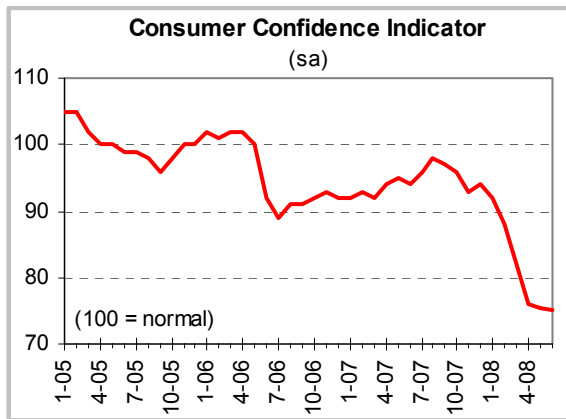
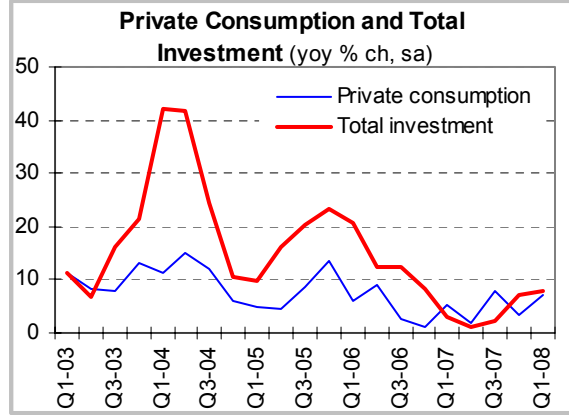
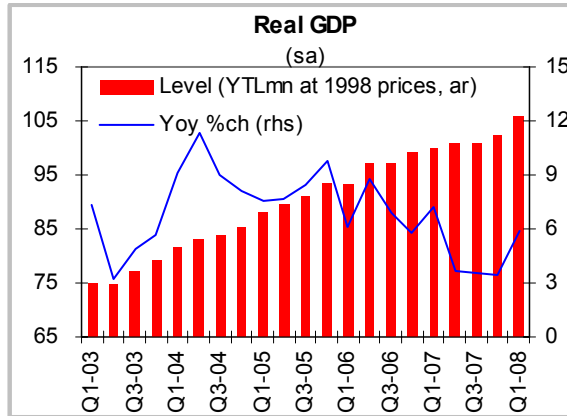
Notes:

* Average over year; ** % change on 31/12/07

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

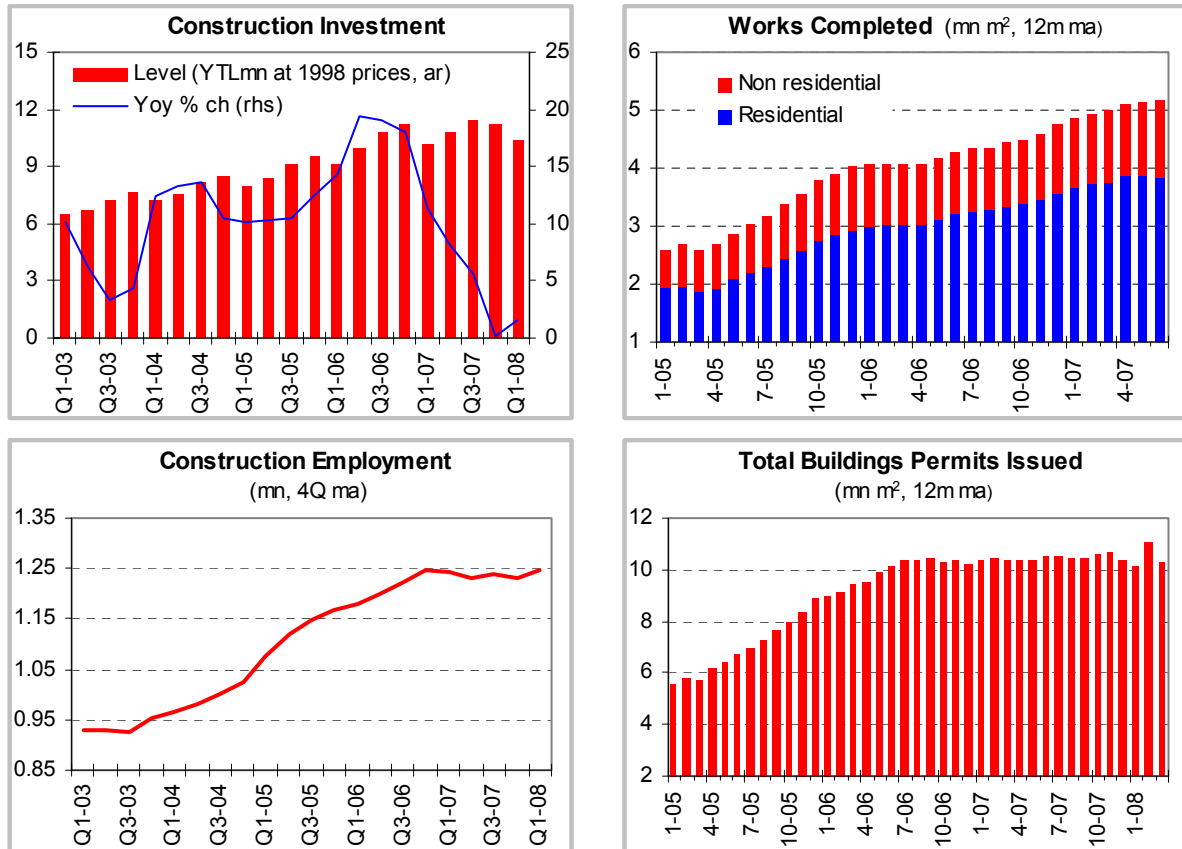
- Q1 08 figures for GDP came in surprisingly strong (+5.9% yoy) following a marked deceleration over the whole 2007. Agriculture rebounded after the negative performance last year triggered by extreme weather condition and a severe regional draught - which, in fact, has been a major drag on overall growth.
- Domestic demand gained momentum with private investment and consumption accelerating to 9.5% and 7.1% yoy, respectively. However, confidence indicators coupled with rising inflation and unemployment, a gloomier external environment, and the ongoing monetary tightening suggest that the stronger than expected Q1 08 will likely turn into renewed weakness already in the coming months. As a matter of fact, consumer confidence has deteriorated sharply since the start of the year and manufacturing output has weakened sensibly in recent months.
- Inflation has been on a steady rise since last summer pushed up by both external and one-off domestic factors, respectively rising energy and food prices and administrative adjustments to electricity and gas prices. While consumer price inflation was stable in June at 10.6% yoy, at the producer level price dynamics hit a record 17%, the highest since November 2004.
- In view of the above price developments, the monetary authorities raised the policy rate in June by 50bp for the second time this year, following the U-turn in monetary policy in May.
- The political environment is deteriorating seriously. First, there is the pending case regarding the ruling AKP party. Second, recent investigations are unveiling an alleged coup plot tied to militant secularists. Tension is piling up not only in the political arena but also among investors which follow the clash between the secular establishment and the government with increasing uneasiness. Hence, the recent sell off in the bourse and the sharp weakening of the lira. As about 70% of the Istanbul stock market is owned by foreign investors a further dent in confidence could be devastating.
- The IMF stand-by programme has expired last May and the government has not signed another one. However, post-programme monitoring and the likeliness of a precautionary stand-by agreement to be negotiated in case of emergency should still offer an external anchor to policy makers.
- The current account deficit eased to 5.8% of GDP last year mainly because of slower growth. Although latest data show that the above ratio has remained stable through Q1 08, a worsening is to be expected as the weaker lira and booming oil and food prices are swelling the trade deficit.

TURKEY



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

Business Conditions in the Construction Sector



Sources: OECD, SIS (State Institute of Statistics)

- After having decelerated dramatically in Q4 07 (+0.2% yoy), construction investment registered only a weak rebound in Q1 08 (+1.5% yoy). In fact, construction is suffering from the deteriorating macroeconomic setting, which in turn is also being hit by growing political instability.
- The Constitutional Court of Turkey has recently announced the cancellation of a law that allows sales of all forms of real estate to non-Turkish nationals. This has sent the holiday property market into chaos and there is quite a lot of uncertainty as to how such ruling will affect real estate, considering that it could curb overseas inflows (particularly those from the UK, Ireland, Germany and Canada) which last year amounted to US\$1.3bn.
- For the above reasons, prospects for this year (and to some extent the next one) are expected to remain depressed. As a matter of fact, higher political instability, coupled with rising risks of further deterioration in the global outlook and higher interest rates, may affect domestic consumption, leading to a postponement of investment and some drop in the demand for housing. In addition, the increasing likelihood of tighter credit conditions may adversely impact the affordability of housing purchase for most households.

THAILAND

Real Indicators*	2005	2006	2007	Latest
GDP	4.5	5.1	4.8	6.1 Q1
Industrial Production – Manufacturing	9.1	7.4	8.2	1.6 May**
Construction Investment	5.8	4.5	2.7	1.8 Q1
Consumer Prices***	4.5	4.6	2.2	8.9 Jun
Producer Prices***	9.1	7.1	3.2	18.6 Jun
Unemployment Rate (%)***	1.9	1.5	1.4	1.5 May
Current Account Balance (US\$bn)	-7.6	2.2	14.9	13.3 Q1°
as a percentage of GDP	-4.3	1.0	6.1	5.2
Real Effective Exchange Rate Index [§]	97.0	105.3	111.5	112.5 Jun

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	2.6	4.6	3.8	3.1 Jun
Stock Exchange Index (Bangkok) (% change)*	4.1	4.2	6.5	-21.9 17/07/08**

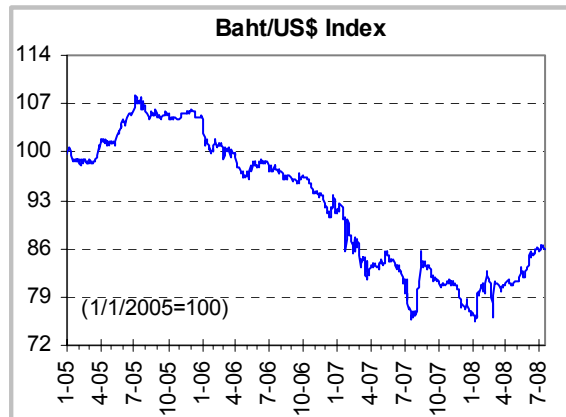
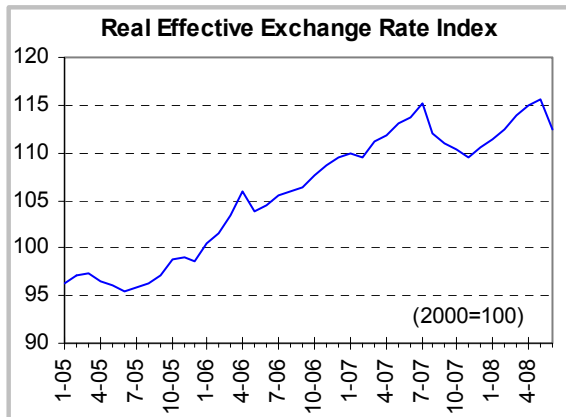
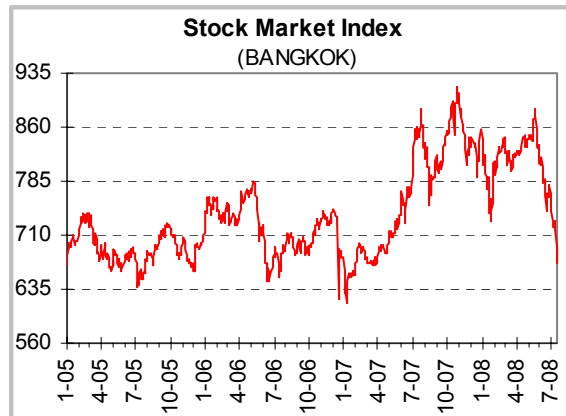
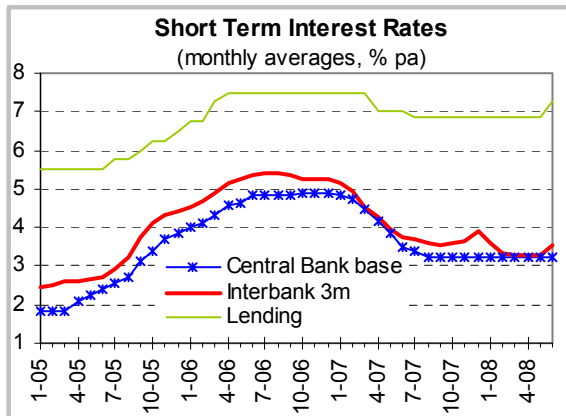
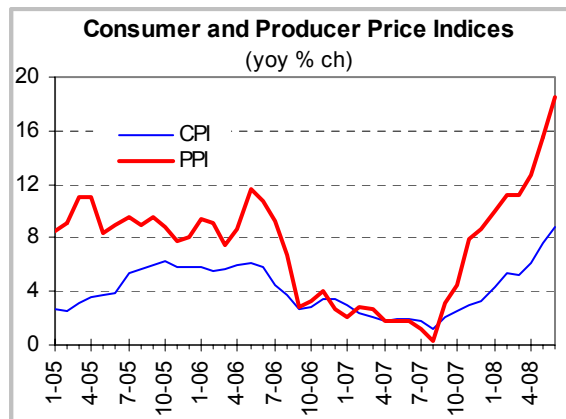
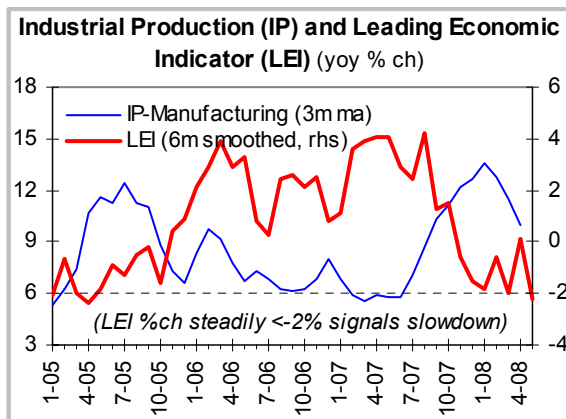
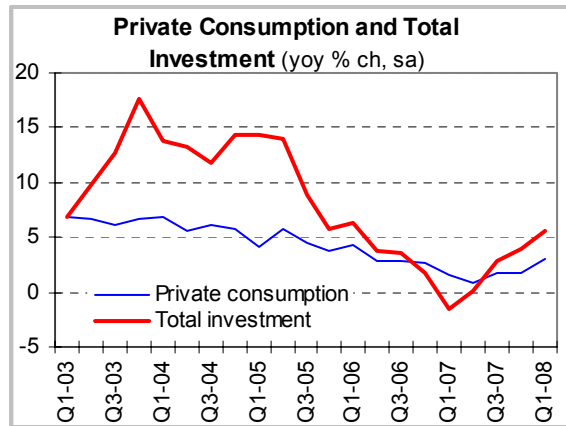
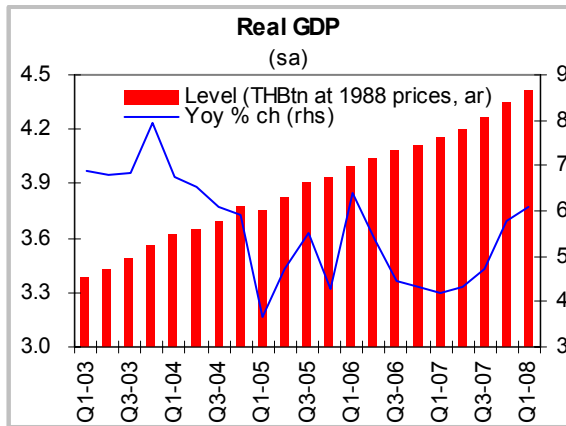
Notes:

* Average over year; ** % change on 31/12/07

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

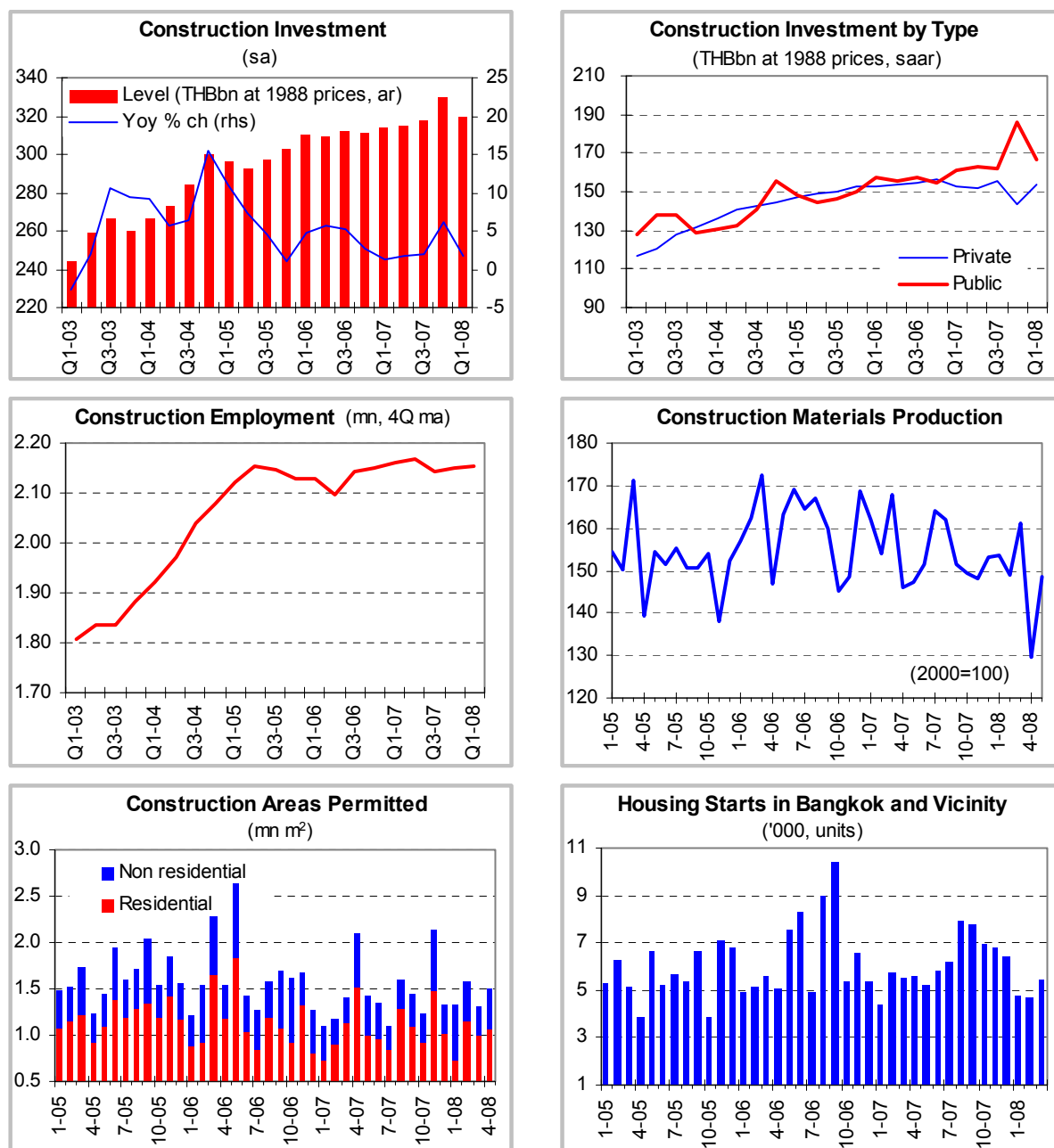
- National accounts data for Q1 08 surprised on the upside as real GDP rebounded to 6.1% yoy driven by buoyant exports and a reviving domestic demand although a significant contribution came from inventory. The rebound was also the result of some improvement of the political climate.
- However, political stability is still far from assured, particularly given the return of Mr. Thaksin - the former Prime Minister ousted by the 2006 coup - from his self-imposed exile. Tension continues to be high between Thaksin supporters (including the governing party) and the opposition. This, combined with the global slowdown, is likely to result in a weaker economic performance in the months ahead. As a matter of fact, industrial production has already decelerated sharply while the Bank of Thailand leading indicator has passed the threshold which signals slowdown.
- Consumer price inflation hit a decade high in June as food and fuel prices continued to spiral. The overall price index rose by 8.9% yoy on the back of a 44.5% fuel prices surge while food prices increased 11.4%, inflated in turn by a 35.8% gain in staple grain prices. Food prices have been under additional pressure as a result of regional draught which has drastically reduced the Spring rice harvest. The 3.6% yoy rise in the core CPI signals that inflation is also demand driven. In addition, prices at factory levels are rapidly heading toward an annual rate of increase of 20%.
- Fulfilling widely shared expectations the Central Bank raised its policy interest rate by 25 bp on July, 16th in an attempt to stem inflation. This marks the end of a loosening stance that was aggressively implemented in 2007 as the economy was weakening. On the other hand, the government is pushing ahead with an expansionary fiscal policy, with a host of populist schemes, including many of those initiated during the Thaksin era, aimed at boosting the rural economy, and a US\$1.5bn package to combat poverty to start next month.
- The Thai *baht* has been on a steady softening trend vis-à-vis the US\$ since mid-January losing over 12% of its value. However, the trend accelerated in the past two months on the back of rising inflation and the increasingly turbulent political climate. Not surprisingly - and reflecting the global financial turmoil - also the stock exchange is under pressure, with the Bangkok index losing over 20% since May.

THAILAND



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

Business Conditions in the Construction Sector



Source: Bank of Thailand

- Construction investment remained relatively weak (+1.8% yoy) in Q1 08, reflecting a rebound in the private residential (+6.8% qoq against -8.0% in Q4 07) and a contraction in the public component (-10.8% qoq).
- The private sector is set to suffer from the influence of negative factors over the remainder of the year. In particular, political conditions are impacting on investors' confidence, and may also dent foreign investment. As a consequence, most coincident and leading indicators remain very weak. The sector should however get some relief from the government's recent stimulus programmes which include tax incentives for the real estate.
- As far as public works are concerned, the government has reprioritised its past infrastructure investment programme. Tenders for three new train routes in Bangkok will be called this year as part of a US\$22.2bn plan to develop the nine lines mass transit rail network for the city. To help fund the rail projects the government has announced it will draw US\$15bn from its 2008-2013 budget (with most of the remaining financing needs expected to come from foreign investors).

INDIA

Real Indicators*	2005	2006	2007	Latest
GDP**	9.1	9.7	9.1	8.7 Q1
Industrial Production - Manufacturing	9.0	11.5	10.6	3.9 May
Construction Production (Gross Value Added)	16.1	13.3	10.6	12.6 Q1
Consumer Prices	4.2	6.2	6.4	7.8 May
Wholesale Prices	4.7	4.8	4.7	11.5 Jun
Current Account Balance (US\$bn)**	-10.3	-9.5	-11.8	-17.4 Q1°
as a percentage of GDP	-1.4	-1.2	-1.2	-1.6
Real Effective Exchange Rate Index [§]	103.7	102.1	109.0	104.0 Jun

Notes:

* yoy % ch, nsa, unless otherwise indicated; national account data are shown on a solar year basis after transforming the original fiscal year data; ** sa; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (91-day T-bills)	5.4	6.4	7.2	8.0 Jun
Prime Lending Rate	10.5	10.9	12.7	12.5 Jun
Stock Exchange Index (Mumbai) (% ch)*	32.7	54.7	35.6	-35.4 17/07/08**

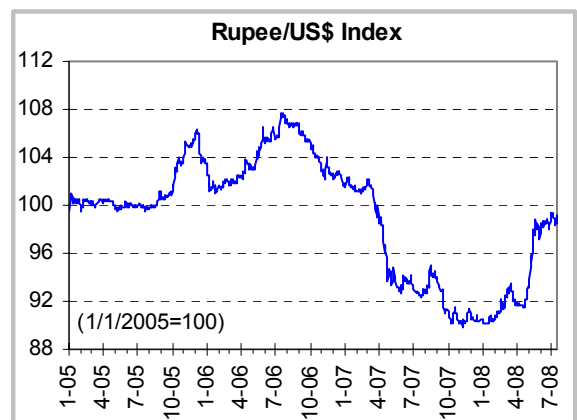
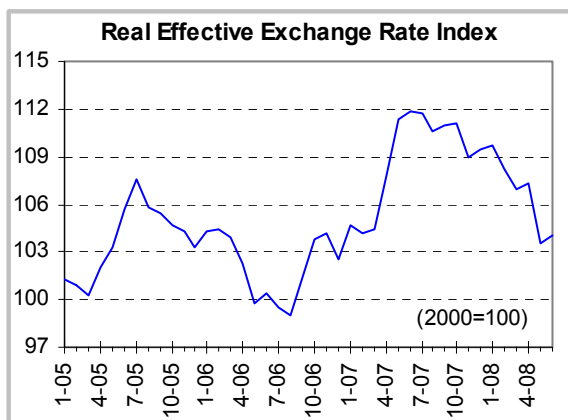
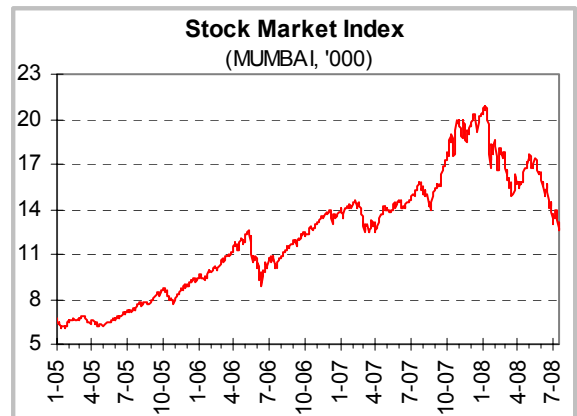
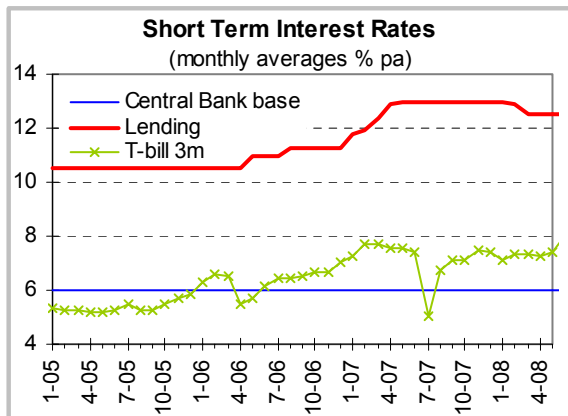
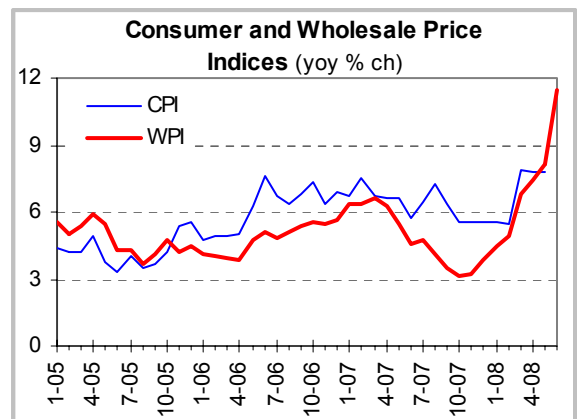
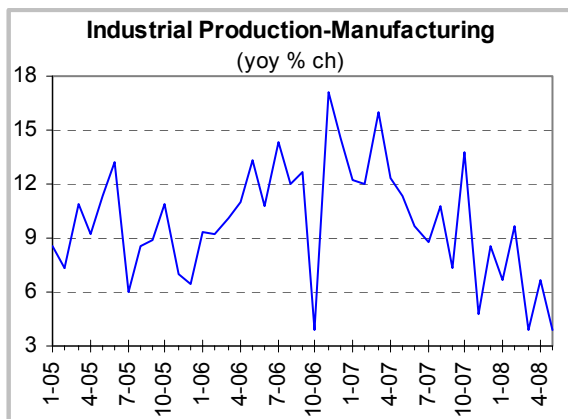
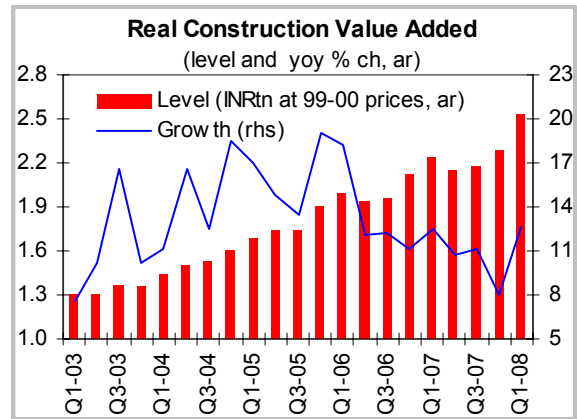
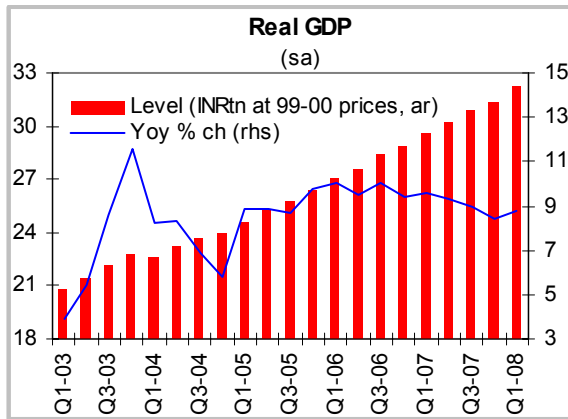
Notes:

* Average over year; ** % change on 31/12/07

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

- The Indian economy continues to power ahead as it grew by 8.7% yoy in Q1 08, well above expectations, although there is widespread consensus that a slowdown is in the cards. Most sectors expanded healthily but manufacturing and agriculture which posted a significantly weaker performance than in previous quarters. While a normal monsoon season is forecast, hence a normal agriculture output, manufacturing has suffered from both past currency appreciation and softer external demand.
- Construction activity is still buoyant. Value added in the sector grew by 10.6% in 2007 and figures for Q1 08 show the momentum is continuing (+12.6% yoy). However, property price dynamics has softened since mid-2007 in many locations and the ongoing monetary tightening is going to curb speculative activity. Investment in infrastructure is also strong. The government has recently announced it will commit INR310bn rupees (US\$7bn) to a comprehensive infrastructure investment programme in North-East India.
- Inflation has become the hottest issue in the latest months. The wholesale price index, the most watched one as it includes a wide basket of commodities, was last June well over 11%, the highest level in 13 years. Inflation is pushed up by strong demand, supply bottlenecks, rising wages, soaring oil and food prices, and recent administrative hikes on fuel prices. The Reserve Bank of India raised its policy rate twice in June by a cumulative 50bp and more hikes are in the pipeline.
- The *rupee* has suffered a steep slide versus the US\$ in the past few weeks reverting the sharp appreciation trend of last year. It now trades just over 43INR per US\$, meaning a devaluation of 9% since January, of which 6.5% between end-April and end-May. This is the result of a combination of factors: rising inflation, weakening industrial activity, widening current account deficit, and moderating capital inflows also as an effect of the global financial turmoil. The dramatic fall in the Mumbai stock exchange (almost -40% from the peak in mid-January) witnesses increasing nervousness among investors. Some analysts point also to the increasingly turbulent political scene (a number of important state elections to come and general elections due in May 2009) as a source of currency weakness.
- The 2008/09 budget is the last one before general elections, hence its populist stance on spending for health, education and rural infrastructure which also includes a farm-loan waiver estimated at almost 1% of GDP.

INDIA



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

CHINA

Real Indicators*	2005	2006	2007	Latest
GDP	10.4	11.1	11.9	10.4 Q2
Industrial Production	16.4	16.6	18.5	16.0 Jun
Consumer Prices	1.8	1.5	4.8	7.1 Jun
Producer Prices	4.9	3.0	3.1	8.8 Jun
Trade Balance (US\$bn)	102.0	177.4	261.9	257.0 Q1°
as a percentage of GDP	1.9	2.8	3.4	3.3
Real Effective Exchange Rate Index [§]	91.4	92.9	96.7	102.3 Jun

Notes:

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
1Y Lending Rate	5.6	5.9	6.8	7.5 May
Central Bank Rate	3.3	3.3	3.3	4.1 Apr
Stock Exchange Index (Shanghai) (% ch)*	-22.2	39.6	160.7	-49.0 17/07/08**

Notes:

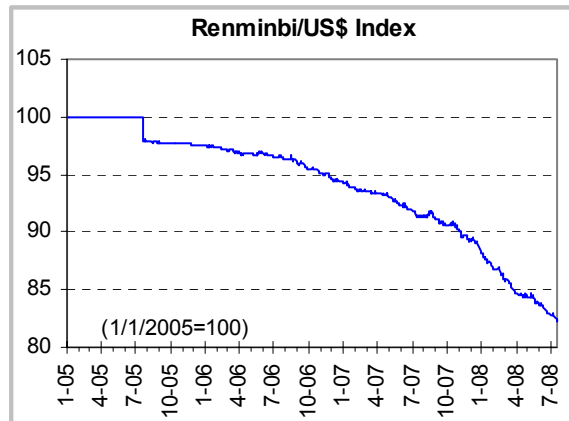
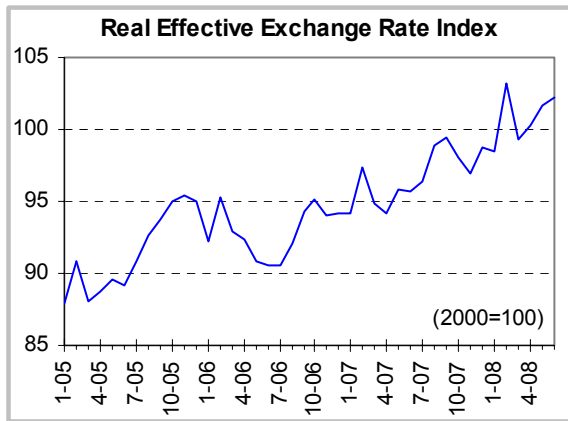
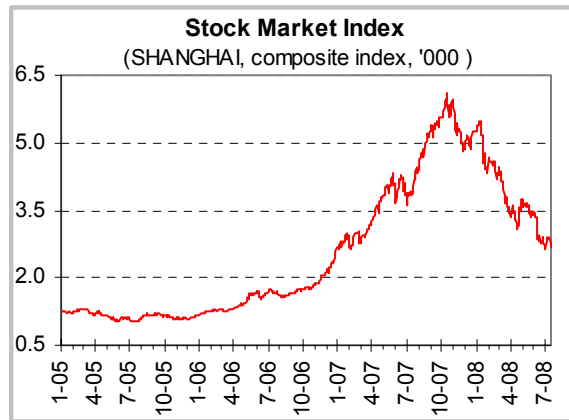
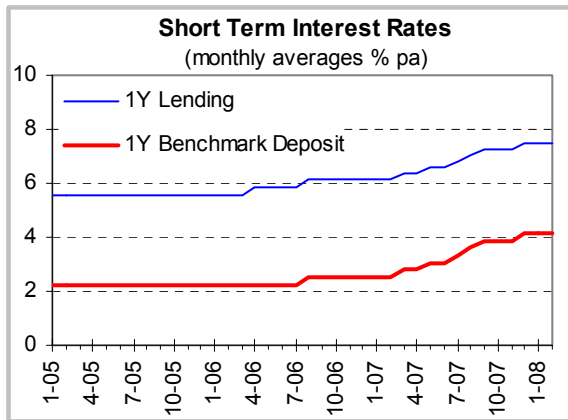
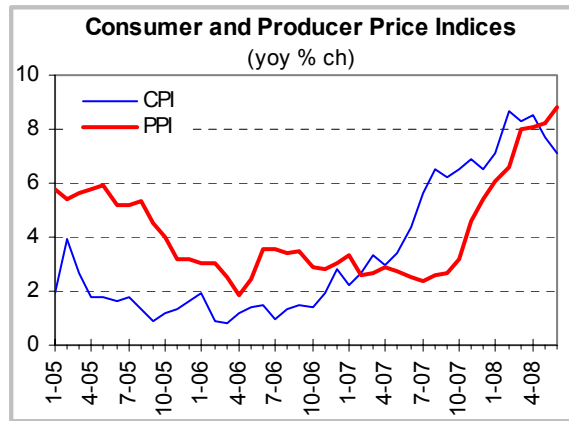
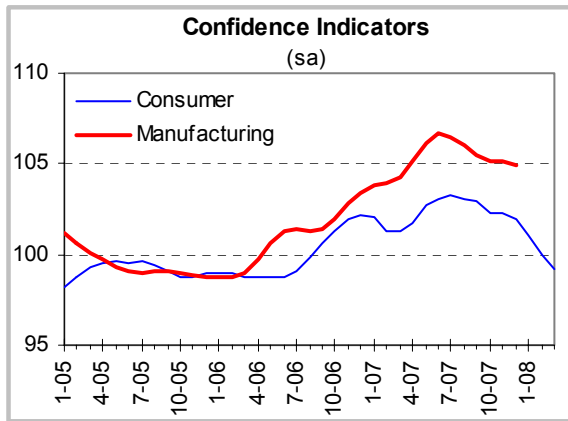
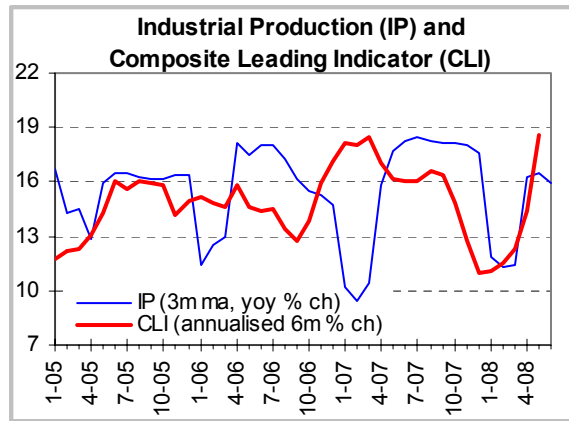
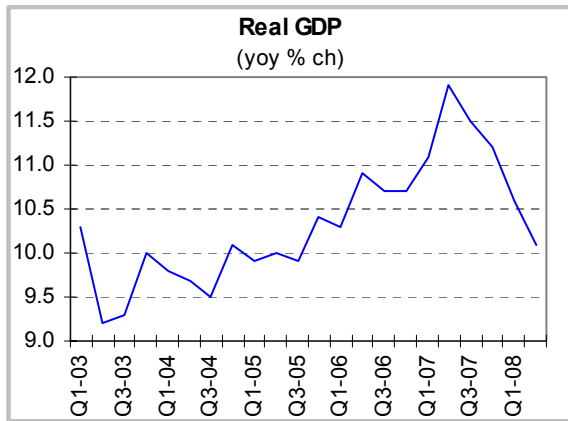
* Average over year; ** % change on 31/12/07

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

- Real GDP growth was still over 10% in Q1 08, albeit decelerating from the previous quarter +11.2%. All economic sectors grew robustly but agriculture. Severe snowstorms have undoubtedly dampened overall activity (owing to disruptions in power supply and transport links) but also weakening external demand has started to dent the otherwise extremely strong net external contribution. Latest data on foreign trade confirm this trend as export growth slowed to 17.6% yoy in June and the merchandise trade surplus narrowed to US\$21.4bn from US\$26.9bn a year earlier.
- While the prevailing view is that some clouds are looming in on account of the strengthening *renminbi*, of rising costs of labour and land, of monetary tightening, and of the global economic slow-down, short term indicators continue to point to robust growth. For example, retail sales growth remained vigorous at 21.6% yoy in May. In addition, investment spending grew by 25.6% in the period Jan-May yoy defying government measures to cool credit expansion. Concurrently, industrial output growth remained buoyant as capacity continued to expand and recorded a +16.5% growth rate on the year up to May (up from +15.7% in April). The imminent Olympics Games are also going to add further stimulus.
- Inflation has somewhat eased thanks to decelerating food price dynamics, which in turn is starting to benefit from a cyclical fall in pork prices. On the other hand, in mid-June fuel prices were sharply increased (in particular, +18% diesel and +16% gasoline).
- Since the beginning of 2007, the Central Bank has tightened monetary policy in two main ways: raising the commercial banks' reserve-requirement ratio 15 times to 17.5% (with the latest increase on June, 7th), and lifting the benchmark one-year lending rate six times, by a total of 135bp. Further adjustments in interest rates are expected as their real levels remain far too low.
- The central government has announced it will launch ten new key infrastructure projects in western China this year, with a total investment of around US\$63bn. These projects are part of the "go west" strategy - the Great Western Development Programme started in 2000 - and include new train tracks that will link up the major western Chinese cities, airport upgrades, new hydropower projects in Yunnan and Sichuan, and pipelines that will transfer natural gas and oil from western China to other parts of the country. As of the end of last year, the Chinese government had started 92 key infrastructure projects, involving investment totalling around US\$189bn.
- In addition, a comprehensive stimulus package of measures has been recently unveiled to support the reconstruction of quake rocked areas in Sichuan, Gansu and Shaanxi provinces. These include fiscal transfer payments, financing aid, taxation exemptions and other preferential policies.

n. 2 - July, 18th 2008

CHINA



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

KAZAKHSTAN

Real Indicators*	2005	2006	2007	Latest
GDP	9.7	10.6	8.5	6.1 Q1
Industrial Production	5.3	6.3	5.0	5.2 May
Consumer Prices	7.9	8.7	10.8	20.0 Jun
Producer Prices	23.7	18.5	12.4	54.1 May
Unemployment Rate (%)	8.0	7.6	7.2	6.8 Q1
Current Account Balance (US\$bn)	-1.1	-1.9	-7.2	-2.9 Q1°
as a percentage of GDP	-1.8	-2.5	-6.9	-2.6
Real Effective Exchange Rate Index [§]	96.4	104.1	106.5	106.6 May

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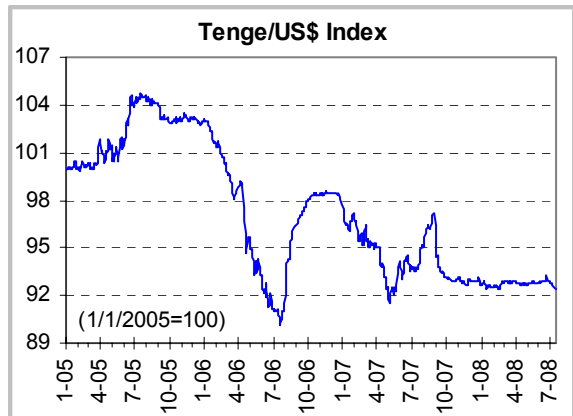
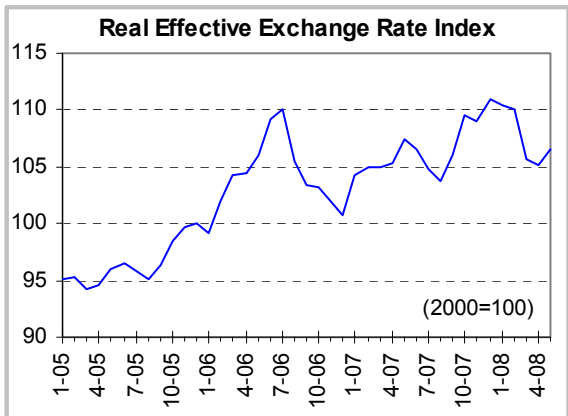
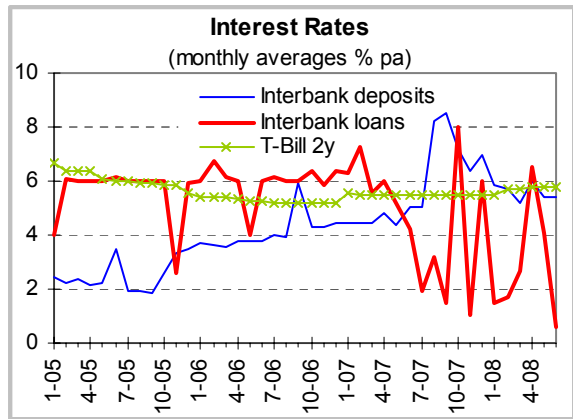
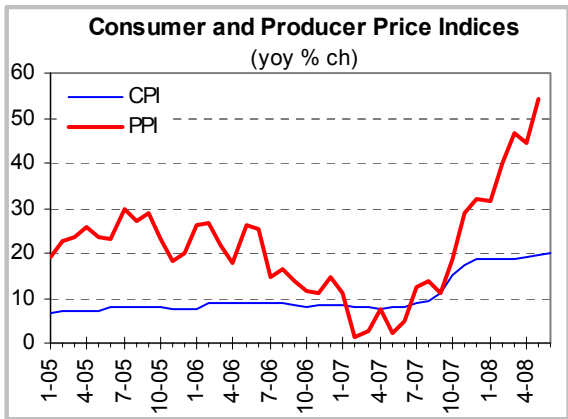
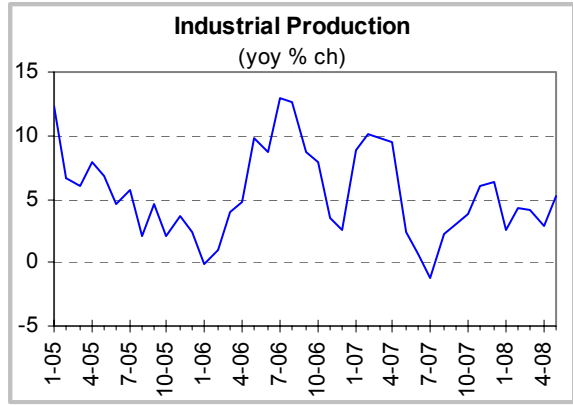
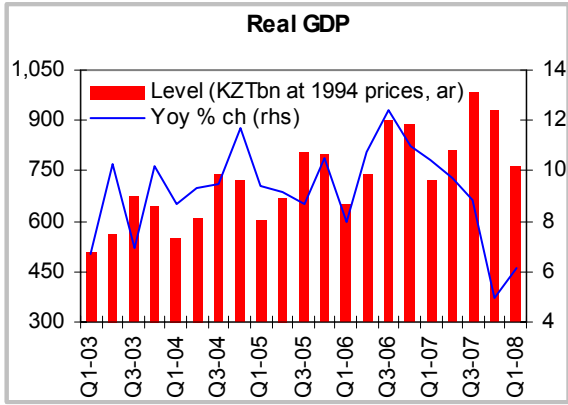
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q1 included; § 2000=100

Financial Indicators				
Refinancing Rate (end of period)	7.8	8.6	9.2	10.5 Jul
Short Term Interest Rate pa (<1 year)	2.8	3.5	5.6	6.0 Jun
Exchange Rate Tenge/\$	132.9	126.0	122.5	120.7 Jun

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

- Q1 08 data for GDP growth confirmed that Kazakhstan is suffering from a serious credit crunch. The Kazakh banking sector has borrowed aggressively from abroad in recent years and the onset of the international credit crisis has put domestic banks under increasing financial stress. While the oil industry continues to thrive driven by stellar international prices, the tighter liquidity conditions have impaired construction most significantly, particularly the residential sector where the bubble has finally burst (unofficial estimates put the house price decline in Almaty, where sales have practically dried up, at 30-40% in just 6 months).
- Despite the above inflation, continues to accelerate pushed up by soaring food and energy prices: at 20% in June it is now at an eight-year high. Food price inflation is just a notch below 30% y-o-y but also service charges have markedly accelerated (+15% y-o-y in June). Prices at factory levels have shot up sharply (+54% yoy in May). This is however hardly surprising given the weight of the petroleum industry in the Kazakh industrial structure and the oil price rally.
- Contrary to previous announcements, the government has banned grain exports at least until September, 1st, starting from the end of last April in order to put a lid on food prices by preventing the grain going abroad on more lucrative export contracts. Given that the country is one of the world's biggest grain exporters, the move is set to have a global impact.
- An export duty on crude oil has also been recently imposed in a bid to stabilise domestic supply, hence help in curbing inflation on the cost side, and increase budget revenues.
- The accelerating inflation setting is posing a serious challenge to policymakers as it would call for monetary tightening while easing the banking sector's liquidity crisis would rather require the opposite. On June 25th the Central Bank opted for a loosening and cut both the policy rate and the reserve requirements clearly judging the threat of a financial crisis the most serious one.
- The 2008 state budget was amended in May to allow for increased social spending (in particular, higher public-sector wages, pensions and social payments) in order to support demand. Although the revenue target was also raised, the planned budget deficit is now at 2.1% of the expected GDP for 2008, instead of the previous 1.4%.

KAZAKHSTAN



Source: National Bank of Kazakhstan