

Economic Profile in ITC Group Countries

N. 1 - March 24th 2009

Highlights

Global Economic Conditions:

Real Indicators

Financial Indicators

Countries:

United States

Canada

France

Belgium

Italy

Spain

Greece

Bulgaria

Egypt

Morocco

Turkey

Thailand

India

China

Kazakhstan

Key to Abbreviations

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

Based on all information up to March, 23rd 2009

Available in @Gold

Highlights

- Data referring to Q4 08 have been far worse than expected almost everywhere. This automatically translates into a more severe negative carry over effect for the current year. In addition, in most economies production during the quarter has shrunk less than final demand, which has delivered a legacy of too high levels of stocks to the new year.
- All coincident indicators point to further remarkable output losses in Q1 09. Industrial production is now falling sharply given the need to reduce inventories and the ongoing credit crunch. Most leading indicators signal that advanced economies will remain in negative territory also in the next quarter.
- Confidence is at all-time lows. To restore more normal levels requires that the financial sector stabilises and that the downturn spiral is felt at its terminus, two conditions clearly not yet matched, although the newly announced US Administration Plan has been welcome as a significant step in the right direction.
- Unemployment is rapidly on the rise. In the euro countries the actual fall in employment levels and the worries related to the loss of job are set to outpace the effect on consumption of increased spending power stemming from the current disinflationary environment. In short, in the months ahead even consumption is exposed to suffer severely.
- The risks of an outright deflation seem on balance contained, as figures for core inflation are moderate – but still positive – and international prices of basic commodities, including oil, have stopped faltering. However, in the coming months further declining inflation figures may be expected.
- Monetary policies have been aggressively used and policy interest rates have been brought almost everywhere down to record lows. Also non conventional measures have been used; however, monetary markets are still in the doldrums and credit availability remains scarce.
- Large fiscal plans to support the economy have been announced in most advanced economies and also in many emerging ones. They are largely based on infrastructure spending as well as on measures aimed at increasing households' disposable income. Efficacy of such plans in reviving demand may prove considerable even though effects will be more likely felt starting in H2 09.
- Despite the above gloomy scenario some glimmers of hope may be singled out: the already mentioned stabilisation of commodity prices and some recovery of freight rates; the fact that the stock markets collapse seems over; early showings of less depressed confidence in a (so far limited) number of countries; the rebound in production and investment already on track in China.
- Very short term prospects remain negatively tilted and further downside revision of forecasts may be in the pipeline. However, sooner or later during the year some drivers of recovery could be set in motion: from the need to rebuild stocks to the growing purchasing power in the hands of households; from a rebound of credit flows to the delayed effects of fiscal stimulus. They will not be probably so strong to fully reverse the average 2009 outcomes but could set the stage for a less dreadful 2010.

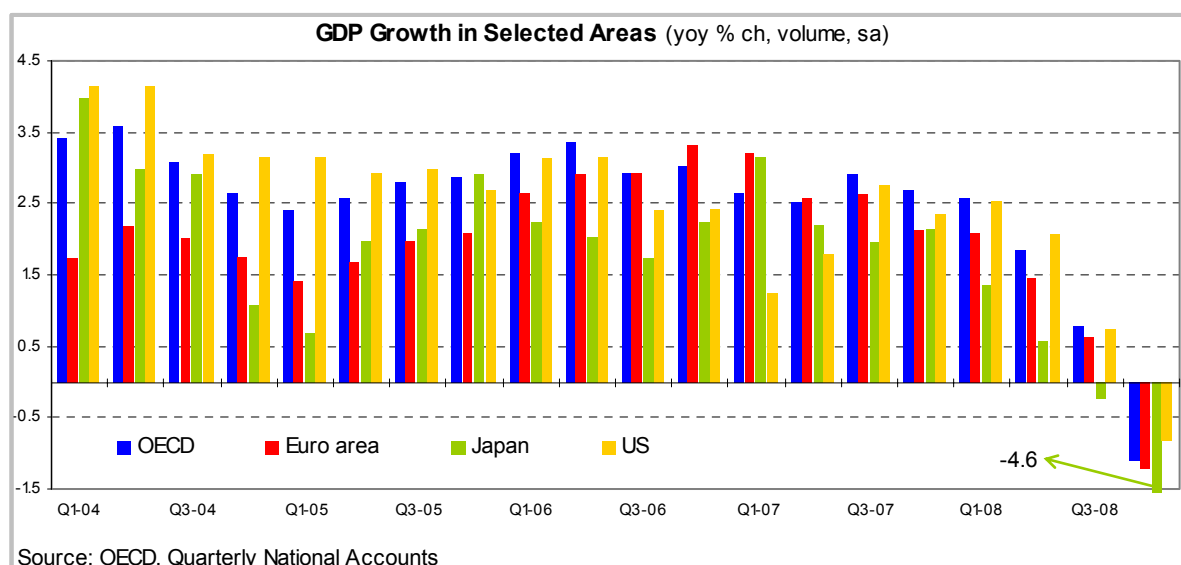
GLOBAL ECONOMIC CONDITIONS: Real Indicators

yoy % ch (unless otherwise indicated)	2006	2007	2008	Latest
GDP: OECD	3.1	2.7	1.2	-1.1 Q4
Euro Area	2.9	2.6	0.7	-1.2 Q4
US	2.8	2.0	1.1	-0.8 Q4
Japan	2.0	2.4	-0.7	-4.6 Q4
Inflation: US	3.3	2.8	3.8	0.2 Feb
Euro Area	2.2	2.1	3.3	1.2 Feb
Oil Price Level (Brent, \$/barrel)	65.4	72.7	97.7	43.4 Feb
(yoy % ch)	20.2	11.2	34.4	-55.1

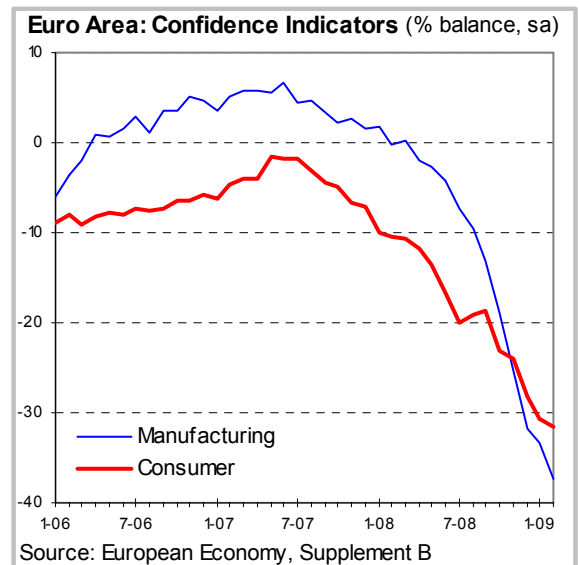
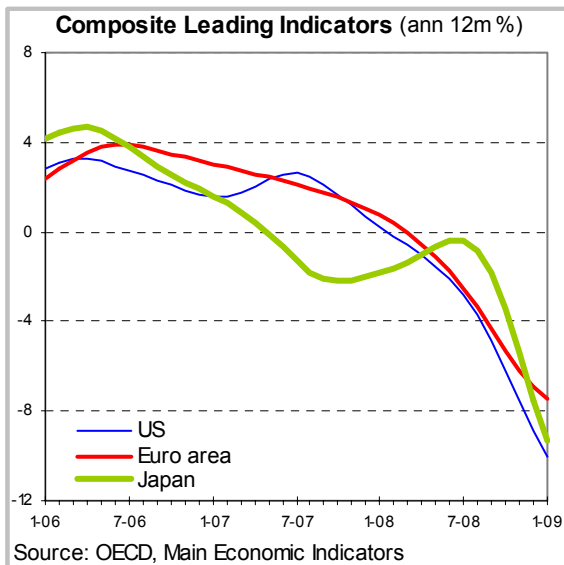
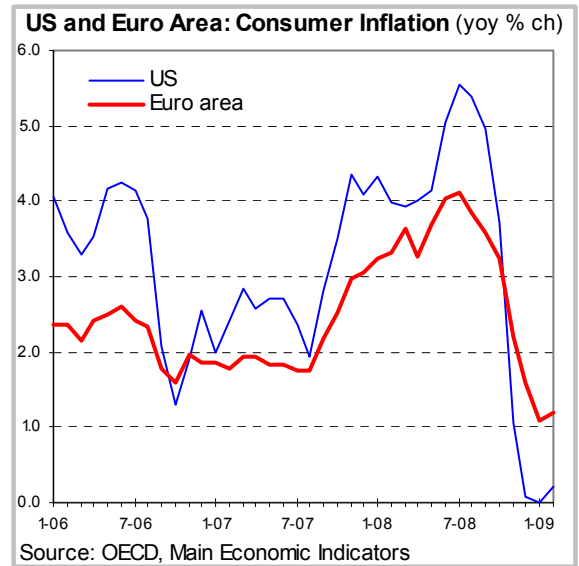
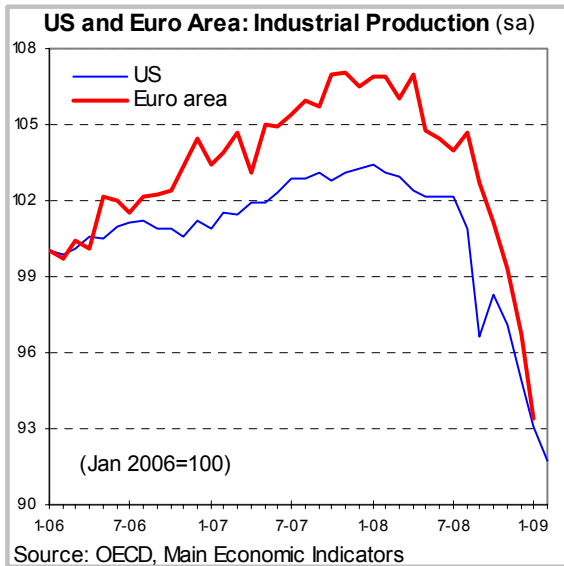
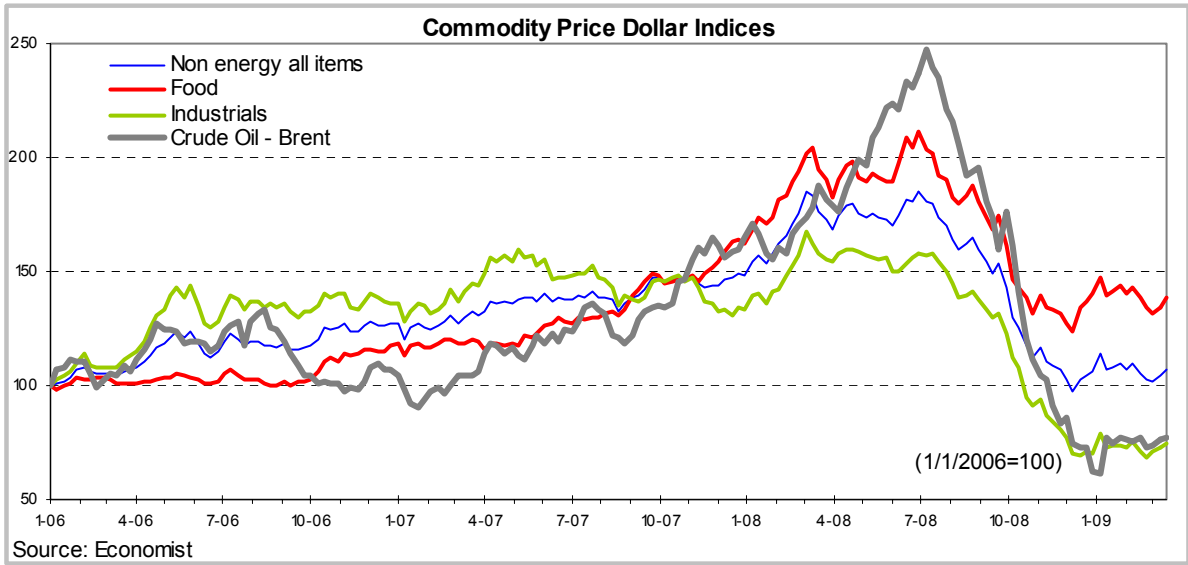
Notes:

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

- The global economic crisis is deepening and is fully unfolding also in the real economy. Most economic institutions (including the IMF and the OECD) keep revising their GDP forecast downwards as the major economies appear in free-fall. In fact, there is yet no certainty as to whether they have bottomed out or, instead, whether their economies will continue to contract for one or more quarters. In other words, no one sees clearly the where and when of the turning point. As a result, leading indicators and industrial production are still heading south.
- The most recent IMF forecasts envisage a fall in world GDP for the first time in 60 years in the range of 0.5 to 1% with an only limited recovery in 2010 on the back of a "mutually reinforcing negative feedback loop between the stalling real economy and the still corrosive financial sector".
- Large fiscal stimulus packages have been launched almost everywhere, the largest, relative to GDP, being the Chinese and the US plans (about 2% of GDP in 2009). Fiscal conditions are thus deteriorating sharply in most countries but China. The IMF, however, warns that overall these plans fall short of the recommended 2% of GDP, especially in 2010.
- Commodity prices have plunged from last summer record highs reflecting a sharp demand downturn globally and heavy de-stocking and have stabilised in recent months. Particularly oil and metals have seen prices dropping by 70% and over 50%, respectively.
- As a result, inflationary pressures have eased substantially worldwide and inflation has nosedived at both consumer and producer level. Although the risk of deflation is still looming, core inflation (i.e. ex food and energy) in both the US and the euro area is still largely positive.
- A glimmer of hope comes from China where the massive government intervention is starting to filter through the economy.



REAL INDICATORS



GLOBAL ECONOMIC CONDITIONS: Financial Indicators

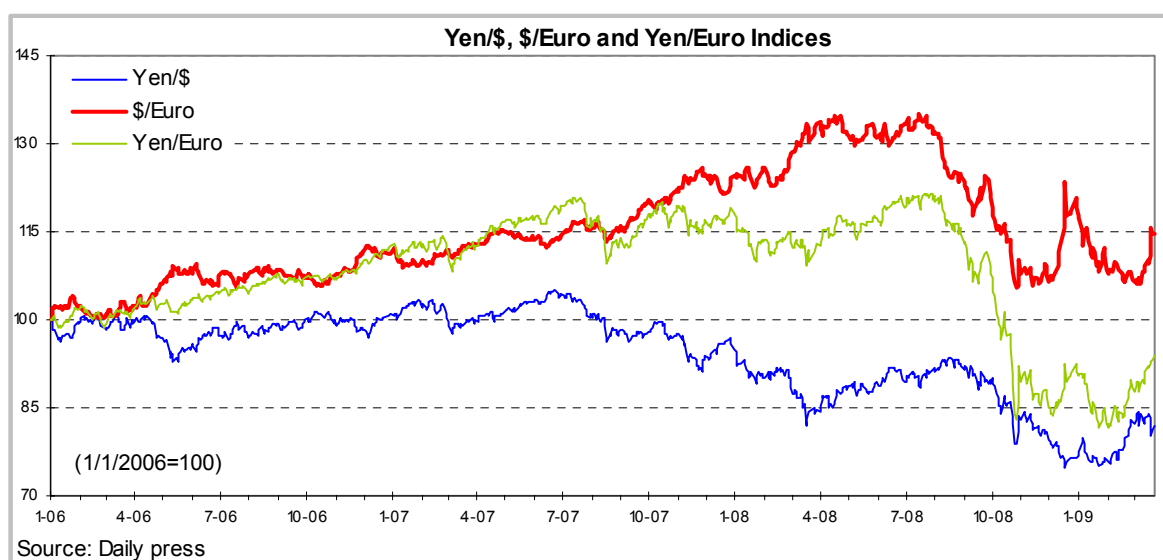
	2006	2007	2008	Latest
Dollar/Euro Exchange Rate	1.256	1.370	1.471	1.298 *
Policy Rates (end of period):				
- US (target for federal funds)	5.25	4.25	0.0/0.25	0.0/0.25 16/12/08
- Euro Area (repo rate)	3.50	4.00	2.50	1.50 11/03/09
Long Term Interest Rate (10y government bonds, year average):				
- US	4.80	4.63	3.66	2.87 Feb
- Euro Area	3.86	4.33	4.36	4.20 Feb

Notes:

* Average from 2/1/2009 to latest available data

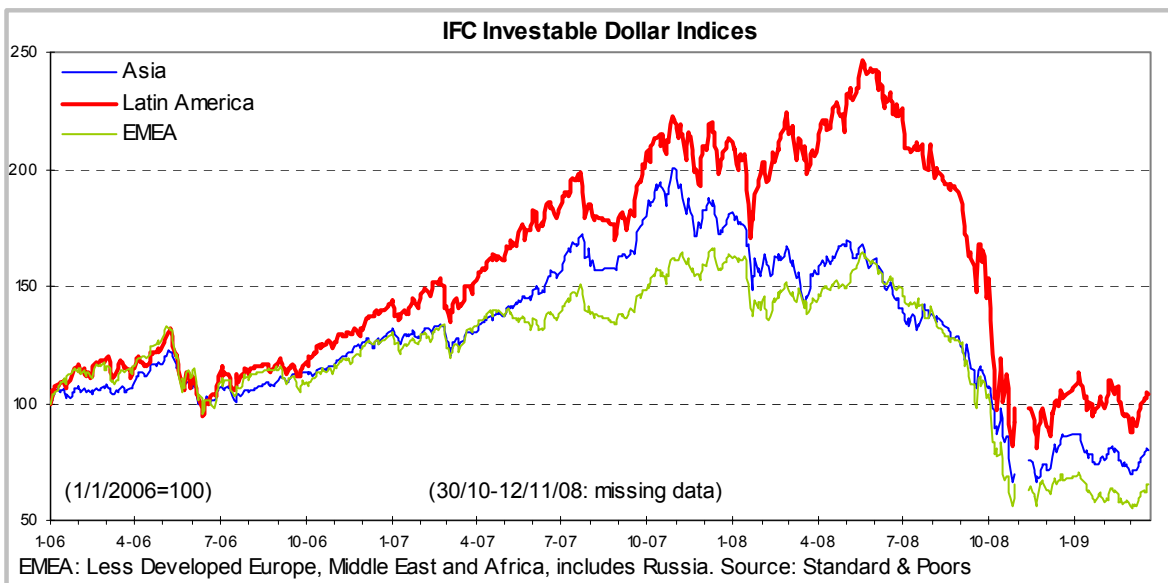
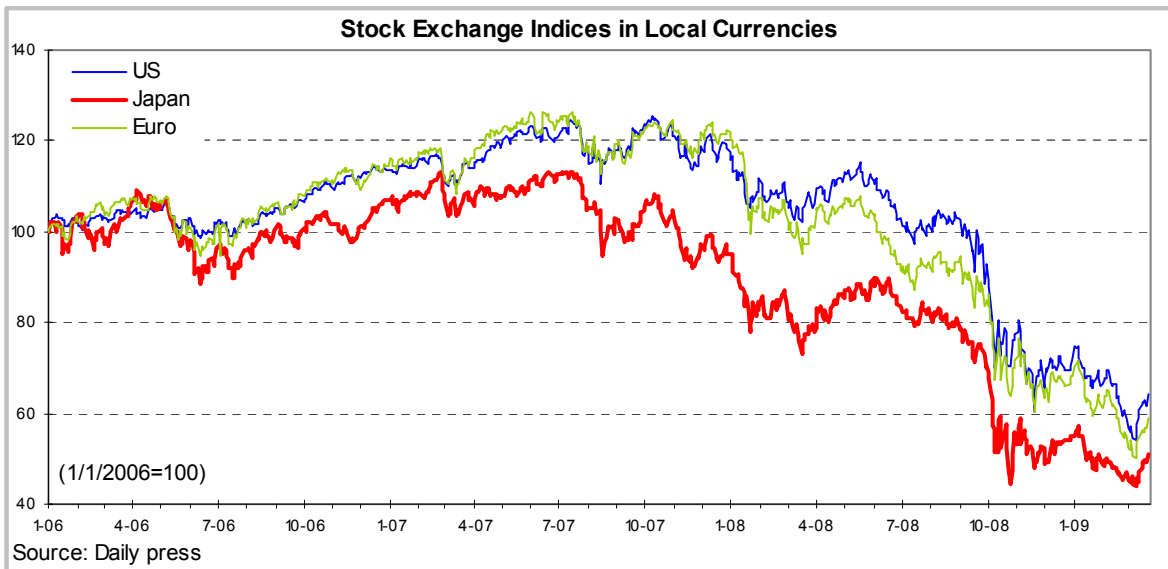
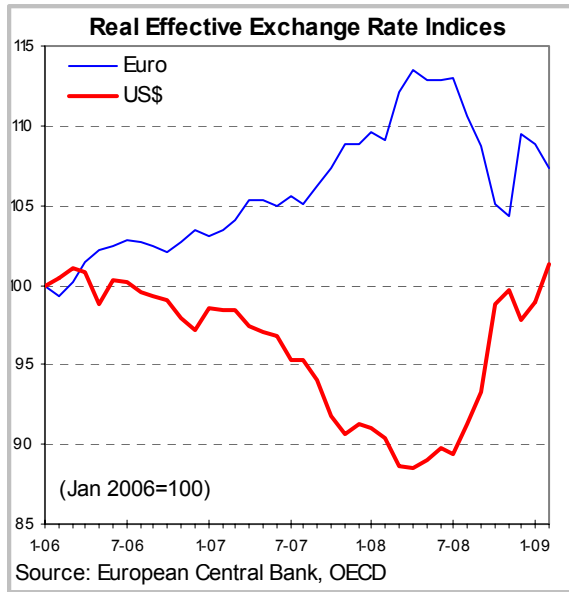
Sources: European Central Bank and Federal Reserve Bank

- Financial markets appear to have somewhat stabilised in the past three months but remain nevertheless under heavy strain on concerns about the banks' creditworthiness. So far, there has been limited progress in addressing distressed assets in advanced economies which has prevented a restoration of market trust. Credit conditions remain critical despite falling money market spreads as lending conditions are being tightened.
- Central banks across the globe have lowered their policy rates, in some cases very aggressively (such as the US Fed). Policy rates are now at record lows in the US and in the euro area, although in the second one there is still room for further cuts. Monetary authorities are also increasingly resorting to unconventional measures - the so-called quantitative easing - consisting of expanding loans to financial institutions, purchasing directly private securities and government debt. Reflecting growing intervention in credit markets, balance sheets of major central banks have swelled since the start of the crisis.
- Recently the Fed announced a plan to purchase US\$300bn in Treasury bonds and an additional US\$850bn of mortgage related debt, bringing such purchases to US\$1.75tn in total. Moreover, the US government has unveiled a comprehensive plan for public private partnership backed by up to US\$100bn from the Troubled Asset Relief Programme to cleanse the financial system from "toxic" assets. Both these policy moves have been welcome enthusiastically in financial markets.
- Emerging countries are facing a significant contraction in capital inflows hence acute financing pressures on their capital accounts. This is fuelling sharp currency movements and volatility. Almost all emerging countries' currencies have devalued vs the US\$, including the Indian *rupee* and the Turkish *lira*. Financial distress is particularly acute in Eastern Europe.

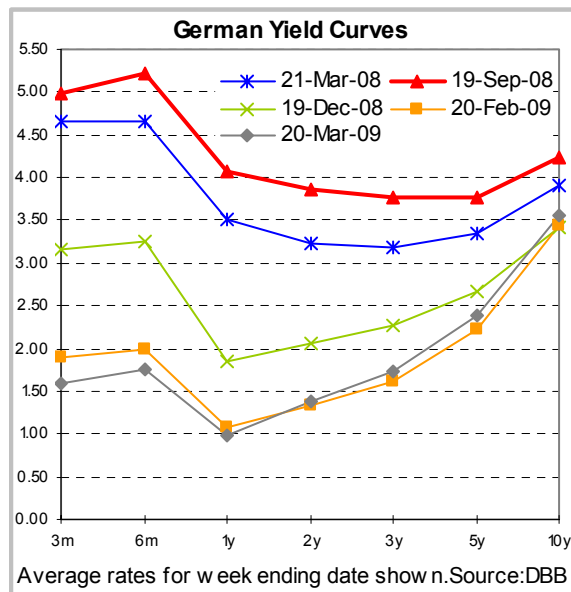
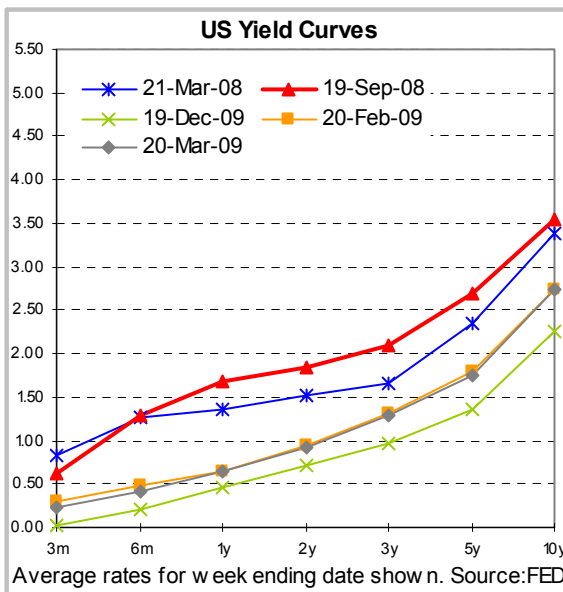
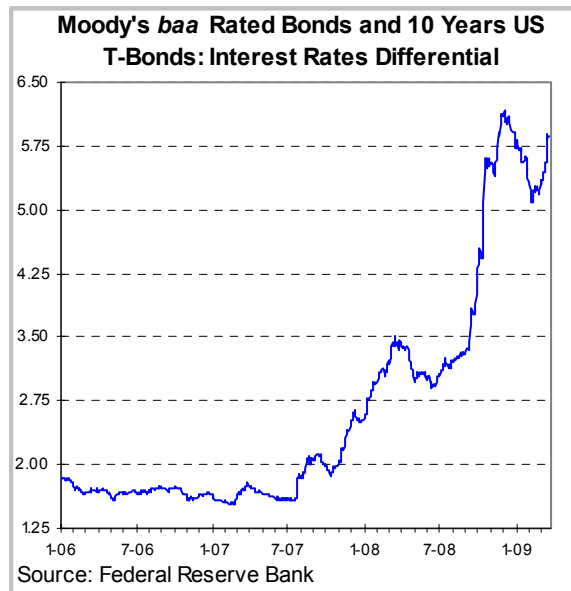
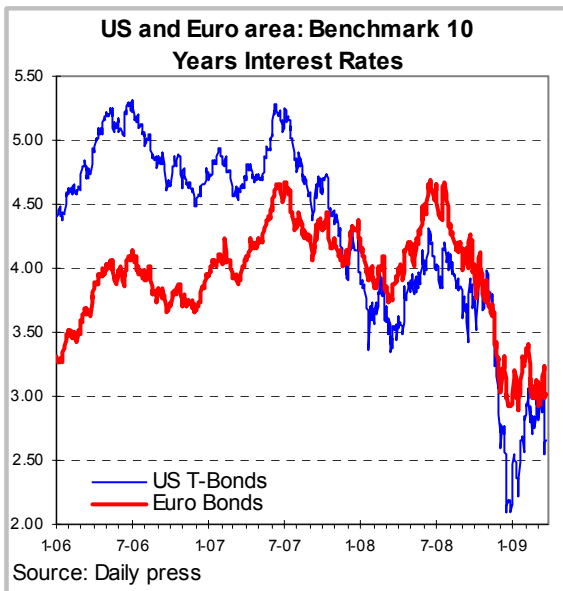
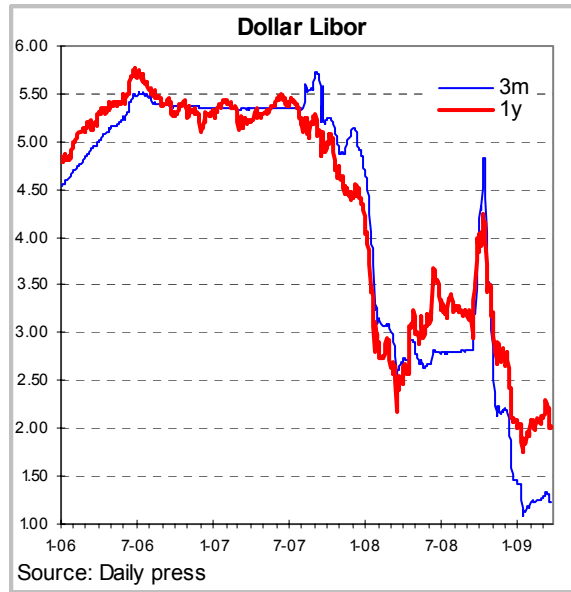
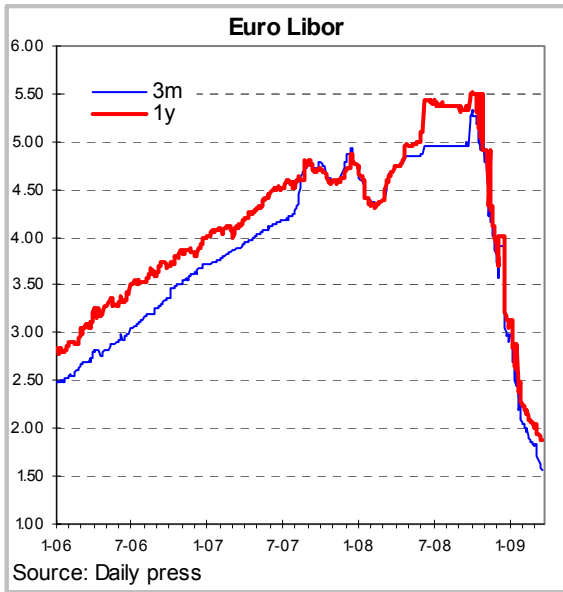


n. 1 - March, 24th 2009

FINANCIAL INDICATORS



FINANCIAL INDICATORS



UNITED STATES

Real Indicators*	2006	2007	2008	Latest
GDP	2.8	2.0	1.1	-0.8 Q4
Industrial Production	2.2	1.6	-1.8	-1.4 Feb**
Construction Investment	-2.4	-5.6	-5.9	-5.9 Q4
Consumer Prices***	3.3	2.8	3.8	0.2 Feb
Producer Prices - Finished Goods***	3.0	3.9	6.4	-1.3 Feb
Hourly Earnings - Manufacturing***	1.6	2.7	2.8	3.1 Feb
Standardised Unemployment Rate (%)	4.6	4.6	5.8	8.1 Feb
Current Account Balance (US\$bn)	-788.1	-731.2	-673.3	-673.3 Q4°
- as a percentage of GDP	-6.0	-5.3	-4.7	-4.7
Real Effective Exchange Rate Index [§]	92.6	88.6	85.1	93.2 Feb

Notes:

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

Financial Indicators				
Short Term Interest Rate pa (3m CD)	5.16	5.27	2.97	1.16 Feb
Long Term Interest Rate pa (benchmark 10y)	4.80	4.63	3.66	2.87 Feb
Stock Exchange (S&P 500) Index (% ch)*	8.5	12.7	-17.2	-14.9 20/03/09**

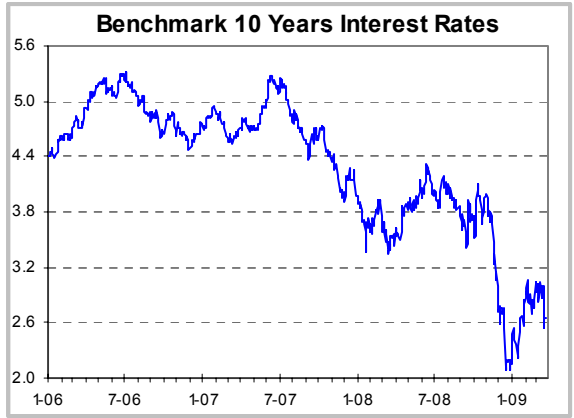
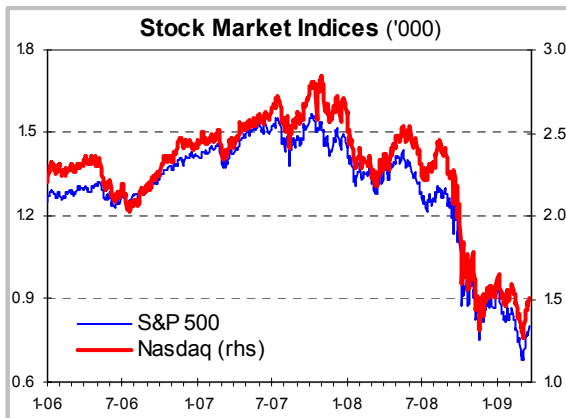
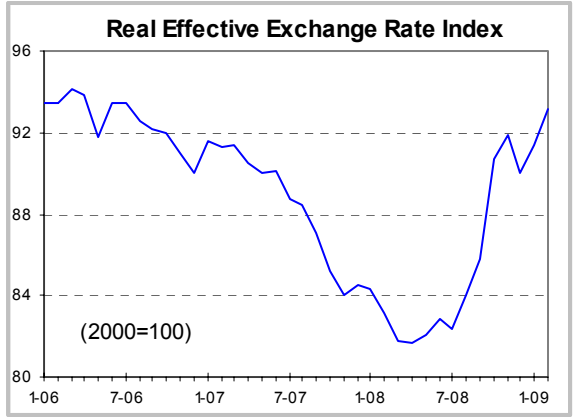
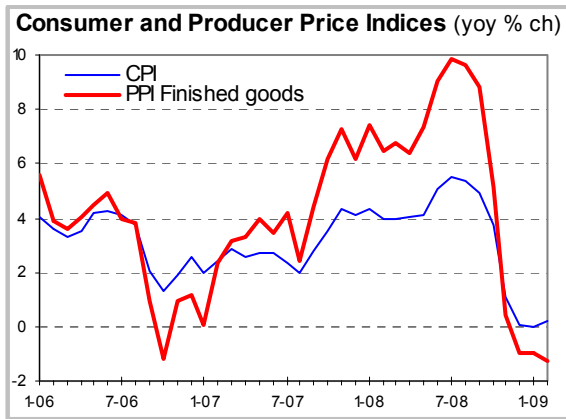
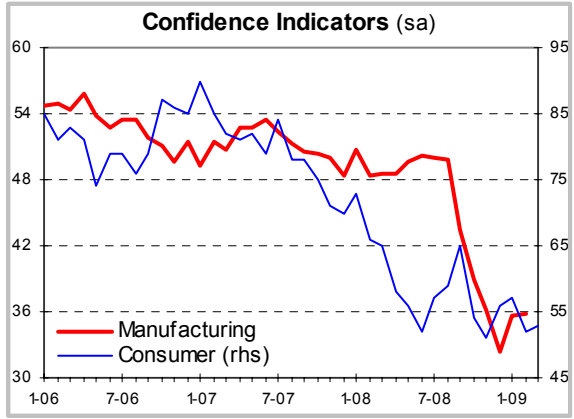
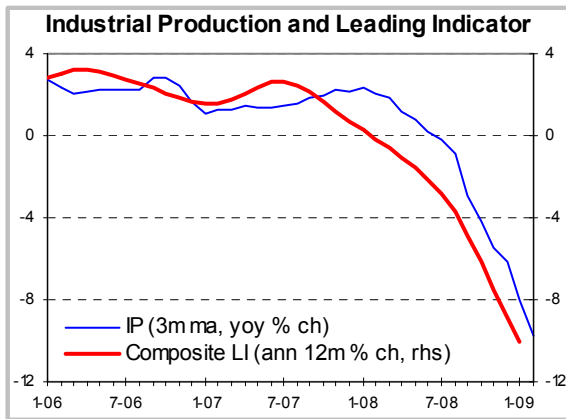
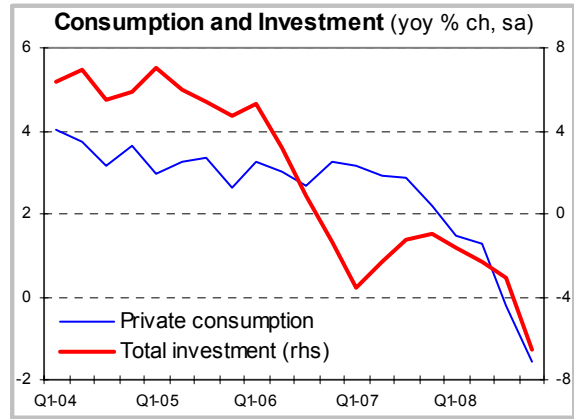
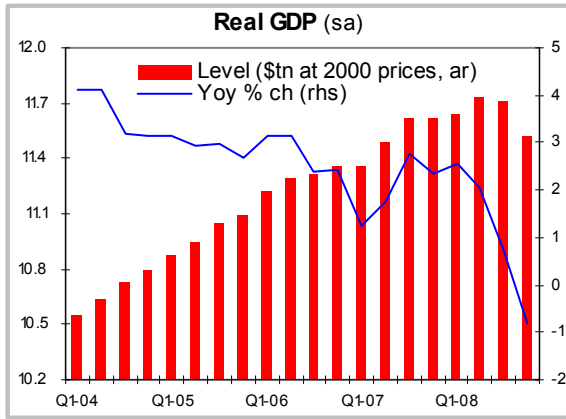
Notes:

* Average over year; ** % change on 31/12/08

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

- The recession in the US started in Q3 08 and deepened substantially in Q4 08 when real GDP fell by 1.6% qoq, the fastest rate of decline in 26 years. All major demand components plunged apart from a marginal positive contribution from public expenditure. Private consumption contracted by 1.1% qoq following a 1% drop in Q3 (the first time that has happened in consecutive reporting periods since the government began recordkeeping in 1947). Reflecting dwindling auto sales and the residential crisis, the durable goods components was down by 6.1%.
- Private investment nosedived 5.8% qoq with all component sharply down but non residential structures, the rate of decline of which was much smaller (-1.5% qoq). The inventory drawdown continued for the fifth consecutive quarter, which is relatively good news as there may be less need ahead to adjust production levels. Industrial production in February was down more than 11% from its peak in January last year.
- Confidence levels among industrialists remain very depressed as well as among households. Unemployment is becoming US households' worst nightmare: 4.4mn jobs were lost since the cyclical peak in December 2007 and 2.6mn in the last four months alone, which brings the rate of unemployment over 8% (it was 4.8% just a year ago).
- Despite a whopping fall in imports, in Q4 net export contribution was negative as exports were particularly hard hit by the fall in demand in Europe and Asia. Thanks to falling imports however, the current account deficit has finally come below the 5% to GDP threshold.
- The risk of deflation does not appear to be particularly severe at the moment as consumer price inflation edged slightly up both in January and in February with core inflation at 1.7% and 1.8% respectively. Capacity utilisation in manufacturing has hit a cyclical low (at a rate of 67.4) hence feeding fears that further slack and downward price pressure may ensue. In fact, the weaker US\$ coupled with the ongoing massive liquidity injections by the Fed should prevent such a risk.
- The new Obama administration has designed a massive fiscal stimulus plan, the American Recovery and Reinvestment Act, worth US\$787 (about 6.8% of GDP) over 10 years with an estimated 23% of the funds to be spent in 2009 and 51% in 2010, which includes tax cuts, increased transfers and welfare payments, and large infrastructure investment.

UNITED STATES



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

CANADA

Real Indicators*	2006	2007	2008	Latest
GDP	3.1	2.7	0.5	-0.7 Q4
Industrial Production	-0.2	-0.1	-4.6	-2.6 Dec**
Construction Investment	5.3	2.2	0.0	-1.6 Q4
Consumer Prices***	2.0	2.2	2.3	1.4 Feb
Producer Prices - Manufacturing***	2.4	1.6	4.3	1.2 Jan
Hourly Earnings - Manufacturing***	0.5	4.2	3.4	1.5 Dec
Standardised Unemployment Rate (%)	6.3	6.0	6.1	7.7 Feb
Current Account Balance (Can\$bn)	20.2	13.6	10.2	10.2 Q4°
as a percentage of GDP	1.4	0.9	0.6	0.6
Real Effective Exchange Rate Index [§]	125.4	129.7	126.7	112.2 Feb

Notes

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

Financial Indicators				
Short Term Interest Rate pa (o/n)	4.02	4.34	2.96	1.00 Feb
Long term interest rate pa (benchmark 10y)	4.21	4.27	3.60	2.97 Feb
Stock Exchange (TSE) Index (% ch)*	18.4	13.8	-8.2	-5.4 20/03/09**

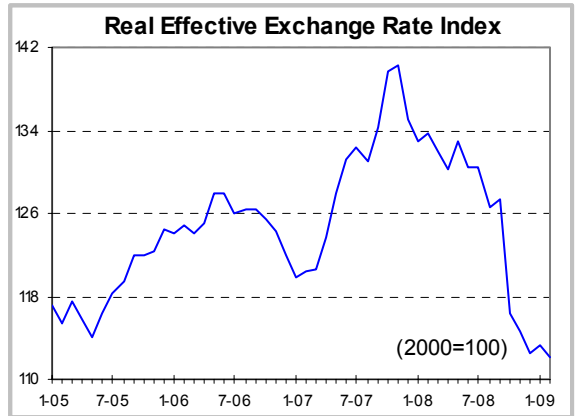
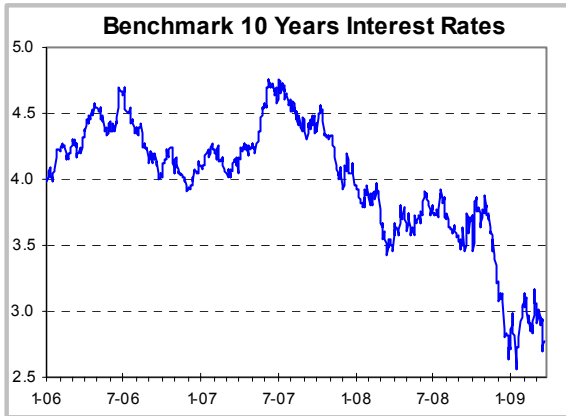
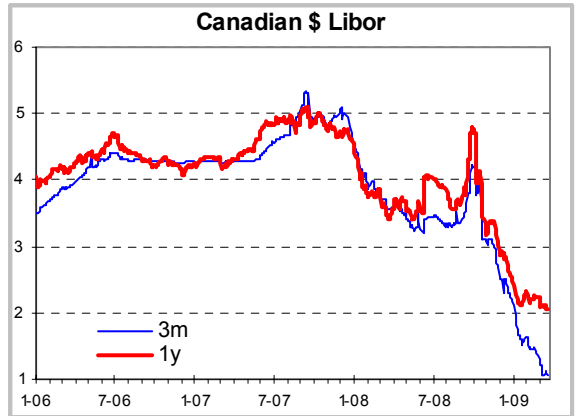
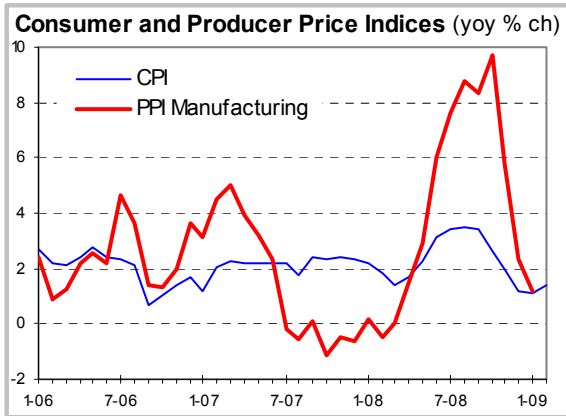
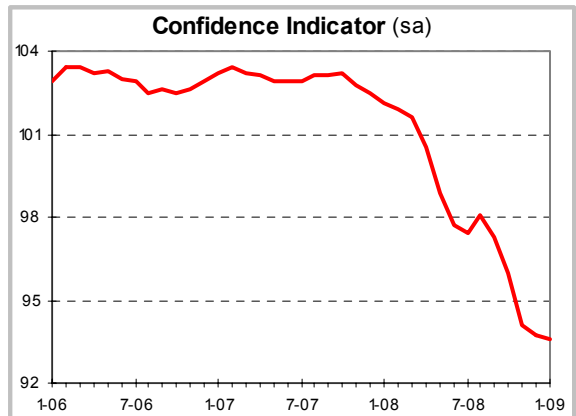
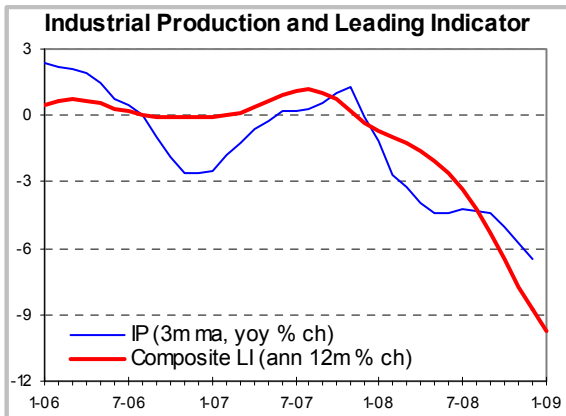
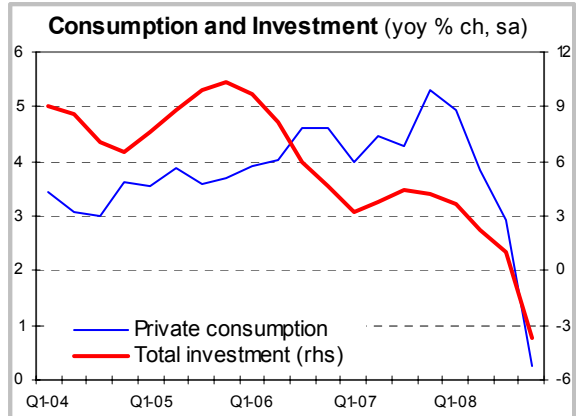
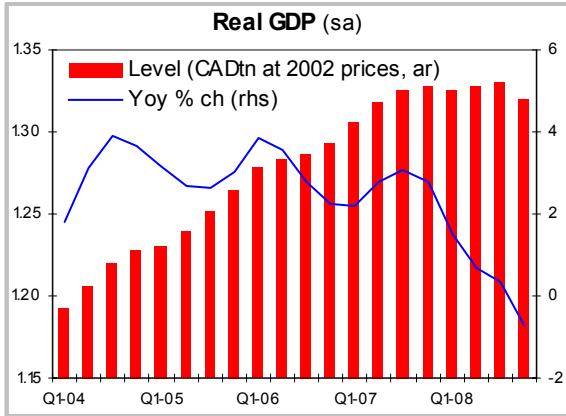
Notes:

* Average over year; ** % change on 31/12/08

Sources: OECD, Statistics Canada, BIS, daily press

- Real GDP fell by a larger than expected 0.8% qoq in Q4 08, the worst performance since 1991, because of the worsening in both the domestic economy and the external demand. Consumer spending was down by 0.8% qoq while investment contracted by 3.3% qoq. Residential construction plummeted by 5% qoq, the steepest decline since 1995, while investment in machinery and equipment nosedived over 6% qoq.
- Weaker demand for Canadian manufactures (particularly cars and car parts) has hit the industrial sector, and the collapse in the US housing market has depressed exports of timber and building materials. In addition, the depressed commodity market at global level is penalizing Canada's export both in volume and in value. All this is reflected in very bad trade data over Q4 08, with both exports and imports recording their sharpest declines since 1982. The drop in imports (-6.4% qoq) exceeded that of exports (-4.7% qoq), reflecting the steep fall in domestic demand.
- Although inventories were scaled back in Q4 08, subtracting 0.2% to overall qoq GDP growth, most analysts agree this was not sufficient. Looking at the steeply rising inventory to sales ratios over recent months, producers will continue to adjust output levels negatively in order to correct for unintended inventory build-up.
- With the economy facing the above cold headwinds, at the beginning of March the Bank of Canada (BoC) lowered the overnight rate by 50bp to a record low of 0.5% (the lowest level since the BoC started operating in 1935). The BoC is also laying out the framework for additional monetary stimulus, if required, through credit and quantitative easing.
- Consumer price inflation picked up slightly in February following a record low the month before (1.1% yoy) on rising food and shelter costs, but core inflation remained stable at 1.9% yoy. Given the CAD\$ devaluation over the past months inflation is unlikely to fall further although weak domestic demand will help keep it in check.
- The government has at last announced a major stimulus plan as part of the 2009 federal budget which consists of CAD\$40bn over the next two years (about 1.5% of GDP) in substantial new spending commitments and tax credits. It also includes an immediate infrastructure program worth CAD\$12bn (CAD\$21bn including provincial contributions).

CANADA



Sources: OECD, Statistics Canada, BIS, daily press

FRANCE

Real Indicators*	2006	2007	2008	Latest
GDP (wda)	2.4	2.1	0.7	-1.0 Q4
Industrial Production	0.5	1.5	-2.5	-3.1 Jan**
Construction Investment	5.3	4.4	-0.7	-3.7 Q4
Consumer Prices - Harmonised Index***	1.9	1.6	3.2	1.0 Feb
Producer Prices - Manufactured Goods***	2.5	2.2	2.4	0.1 Jan
Hourly Earnings - Manufacturing (<i>ouvriers</i>)***	2.8	2.8		3.2 Q3
Standardised Unemployment Rate (%)	9.2	8.3	7.8	8.3 Jan
Current Account Balance (€bn)	-10.2	-19.6	-39.1	-39.1 Q4°
as a percentage of GDP	-0.6	-1.0	-2.0	-2.0
Real Effective Exchange Rate Index [§]	108.2	109.1	110.3	108.2 Feb

Notes:

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

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	3.08	4.28	4.64	1.94 Feb
Long Term Interest Rate pa (benchmark 10y)	3.80	4.30	4.23	3.68 Feb
Stock Exchange (CAC) Index (% ch)*	19.7	12.1	-24.2	-13.3 20/03/09**

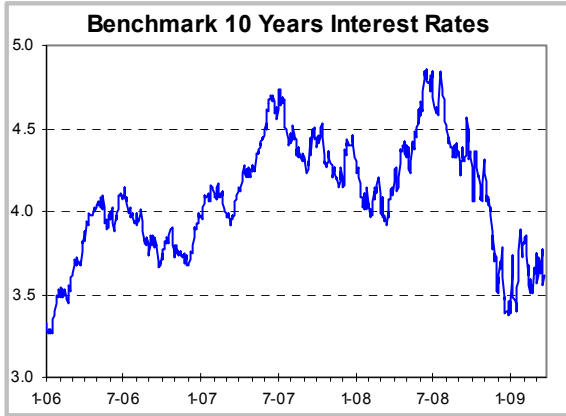
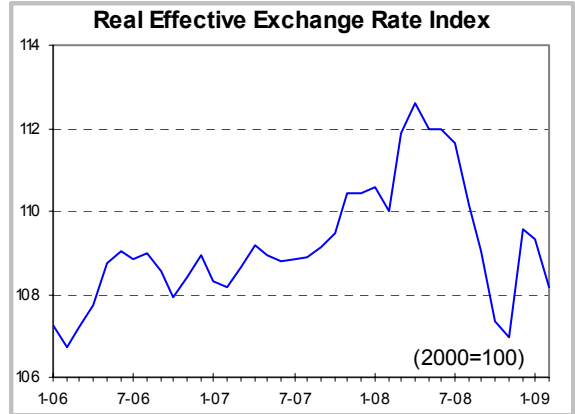
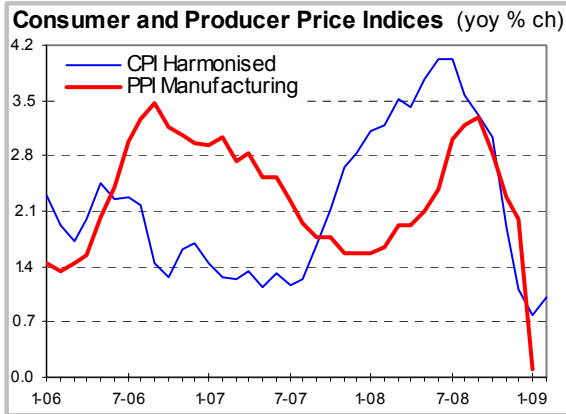
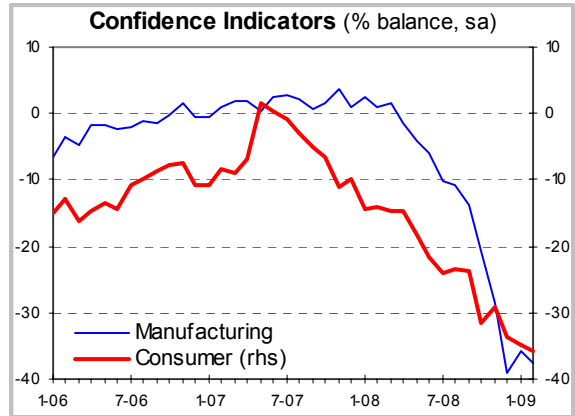
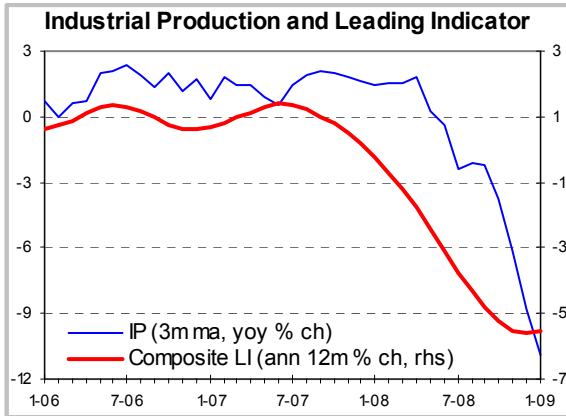
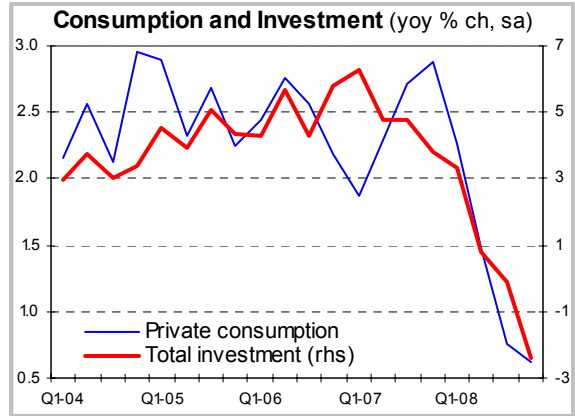
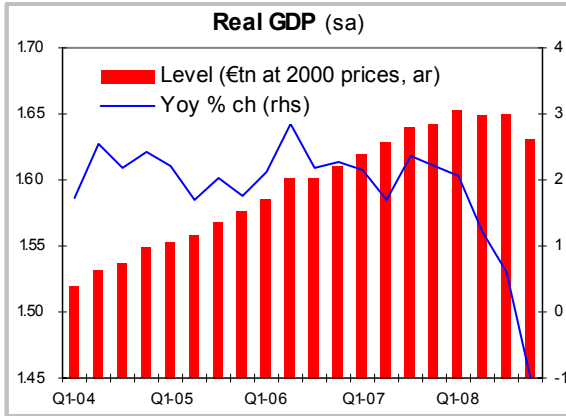
Notes:

*Average over year; ** % change on 31/12/08

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

- GDP shrank by 1.2% qoq in Q4 2008, the sharpest quarterly contraction since the data series began in the late '70s. This outcome was due to massive de-stocking (subtracting 0.9 pp from GDP), and a significant reduction in total investment (down 1.2% qoq). Net exports subtracted 0.3 pp from overall GDP, as exports (-3.7%) dropped more than imports (-2.2%).
- Despite the large destocking observed in the fourth quarter, industrial production marked a further slump (-3.1% mom) in January. Also, sharply declining order books, especially from abroad, implies worsening expectations concerning the general outlook.
- Available hard data and leading indicators are all pointing deeply south suggesting that GDP is set to contract sharply during the first three months of 2009.
- After the €26bn rescue plan announced in the last part of 2008, the government has stepped in to help the automotive industry. It formally announced a rescue package in February, by providing preferential loans of €3bn each to major vehicle manufacturers (Renault and PSA Peugeot-Citroën), as well as a loan of €500mn for Renault Trucks. These loans will finance the vast stocks of unsold vehicles built up as demand collapsed in the second half of 2008.
- Early this month, the government presented a rectified Law of Finances for 2009 designed to take into account both the substantial downward revision of previous macroeconomic guidelines, and the impact of economic activity support plans. This will take the public deficit to 5.6% of GDP in 2009, improving only marginally in 2010, to 5.2%. The ratio of public debt to GDP is set to deteriorate sharply, to 73.9% in 2009 and 77.5% in 2010.
- Consumer price inflation edged upwards in February (+1% yoy), marking the first increase in inflation in five months. Core inflation (which excludes the most volatile components, such as food and energy prices) rose by 1.9%, up from an increase of 1.7% yoy in January. However, despite its modest increase, inflation is expected to ease further in the coming months mainly as a result of weaker demand.

FRANCE



Sources: OECD, INSEE, BIS, daily press

BELGIUM

Real Indicators*	2006	2007	2008	Latest
GDP (wda)	3.0	2.6	1.1	-0.8 Q4
Industrial Production	5.1	2.5	-4.2	-0.3 Dec**
Construction (Gross Value Added)	8.5	3.5	1.3	1.7 Q3
Consumer Prices – Harmonised Index***	2.3	1.8	4.5	1.9 Feb
Producer Prices***	5.0	3.3	8.5	-2.9 Jan
Hourly Earnings-Industry***	2.2	1.7	2.9	3.6 Q4
Standardised Unemployment Rate (%)	8.3	7.5	7.1	7.2 Feb
Current Account Balance (bn €)	8.4	5.6		-4.5 Q3°
as a percentage of GDP	2.6	1.7		-1.3
Real Effective Exchange Rate Index§	108.9	109.9	113.2	112.7 Feb

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	3.08	4.28	4.64	1.94 Feb
Long Term Interest Rate pa (benchmark 10y)	3.81	4.33	4.41	4.24 Feb
Stock Exchange (BEL20) Index (% ch)*	22.2	13.1	-29.1	-10.5 20/03/09**

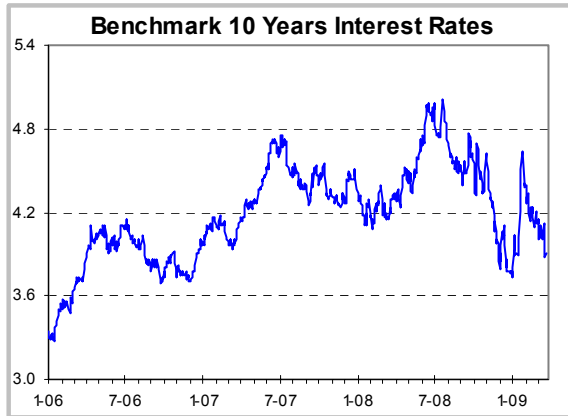
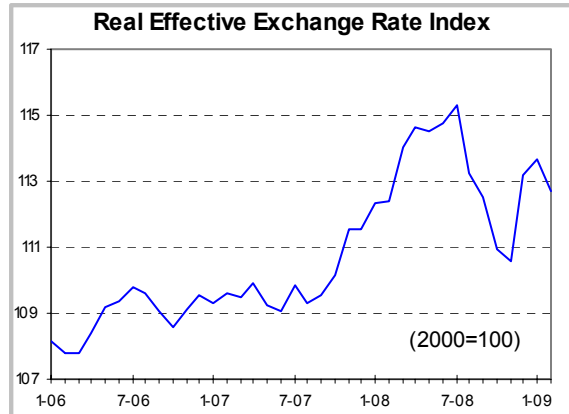
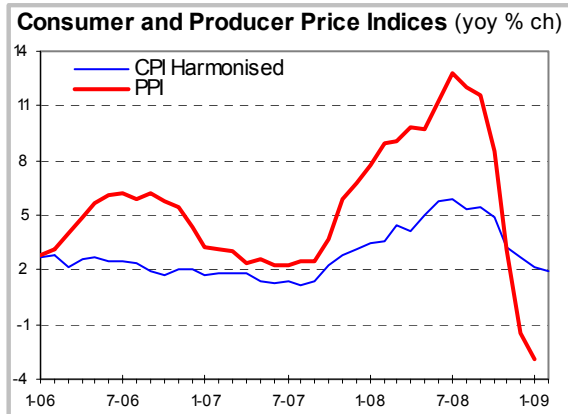
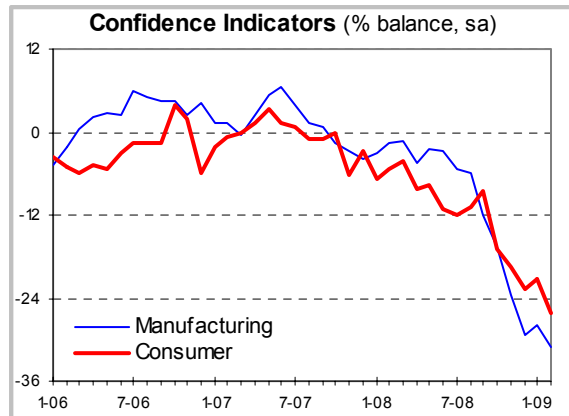
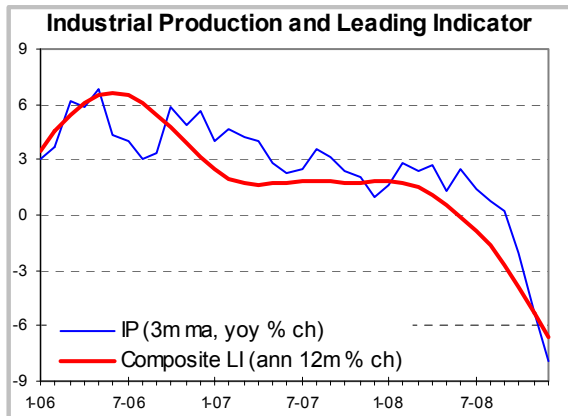
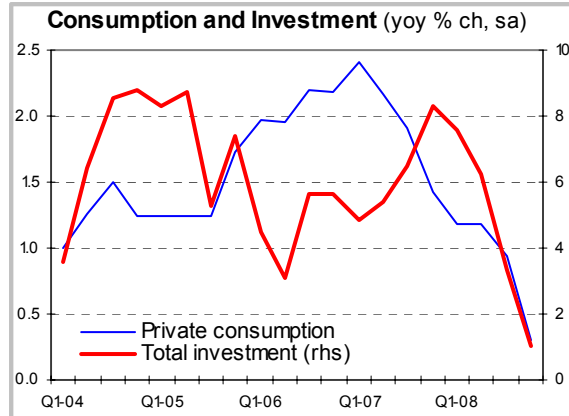
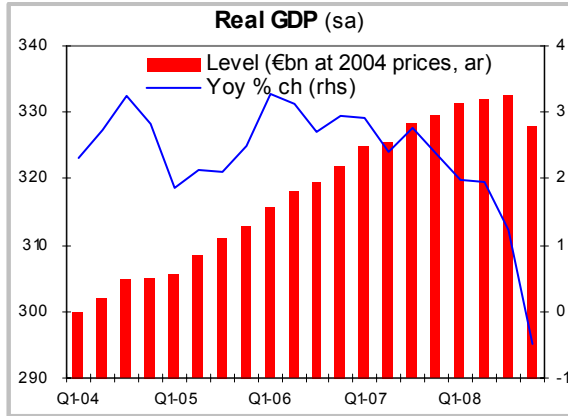
Notes:

* Average over year; ** % change on 31/12/08

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

- Belgium's economy contracted by 1.7% qoq in Q4 08, as exports of goods and services collapsed by 6.5% qoq and private consumption recorded the weakest performance since 2003 (-0.4% qoq). In 2008 as a whole, GDP expanded by 1.1%, the lowest annual growth rate achieved in the past five years.
- All confidence indicators suggest that economic activity has deteriorated sharply in the first two months of 2009, as a consequence of the financial market turmoil and the ensuing credit crunch, of significantly slower global demand, and of a steady deterioration in labour market.
- Faced with this gloomy outlook, the authorities' responses have been manifold. The three main Belgian banks and one insurance company have been supplied with capital injections and loans for a total amount of around €22bn, a measure that was combined with important changes in the governance structure of these institutions. In addition, banks were given the possibility to apply for a temporary State guarantee to facilitate their financing on the interbank market, and the threshold for the deposit guarantee scheme was raised. The new government is also committed to implement the economic recovery package which focuses on the inter-professional agreements between trade unions and employers in an attempt to achieve wage moderation in 2009-10, and on stimulating lending, boosting public investment and providing export credit support.
- The government also aims at supporting the construction sector through an extension of the 6% reduced VAT rate to the building costs of a new house, as well as to the cost of rebuilding after demolition and to the construction of public social housing. In addition, the government will speed up public investment in the railways and other public infrastructure. According to the Federal Planning Bureau, these measures should help to mitigate the contraction in construction investment this year and the next.
- Consumer inflation slowed further to 1.9% yoy in February, the lowest rate since September 2007.

BELGIUM



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

ITALY

Real Indicators*	2006	2007	2008	Latest
GDP (wda)	2.1	1.5	-1.0	-2.9 Q4
Industrial Production	2.4	-0.2	-4.3	-0.2 Jan**
Construction Investment	1.1	0.8	-1.8	-6.1 Q4
Consumer Prices - Harmonised Index***	2.2	2.0	3.5	1.5 Feb
Producer Prices***	5.6	3.5	5.9	-2.0 Jan
Hourly Rates - Industry, excl.Construction***	3.3	2.8	3.3	3.3 Dec
Standardised Unemployment Rate (%)	6.8	6.1		6.7 Q3
Current Account Balance (€bn)	-38.5	-37.4		-46.0 Q3°
as a percentage of GDP	-2.6	-2.4		-2.9
Real Effective Exchange Rate Index§	110.5	111.5	113.1	112.4 Feb

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; °latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	3.08	4.28	4.64	1.94 Feb
Long Term Interest Rate pa (benchmark 10y)	4.05	4.49	4.68	4.54 Feb
Stock Exchange (MIBTEL) Index (% ch)*	15.6	9.8	-30.6	-19.8 20/03/09**

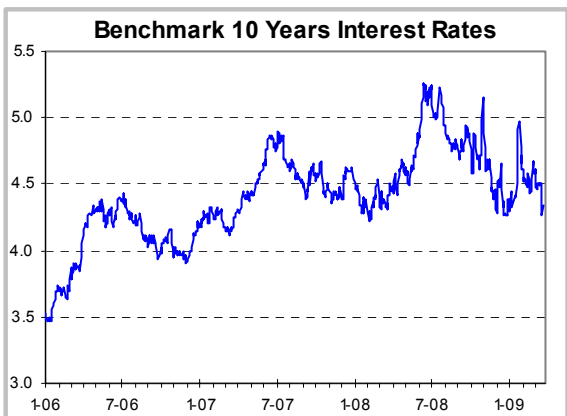
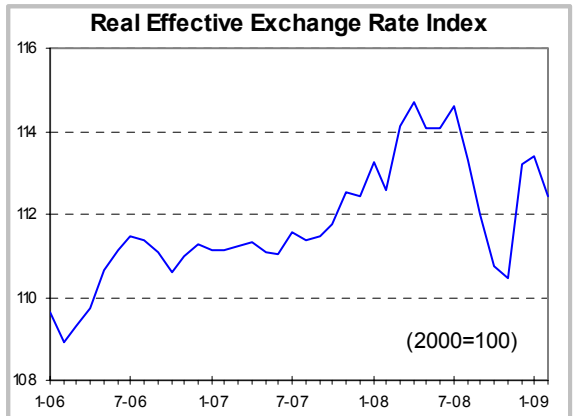
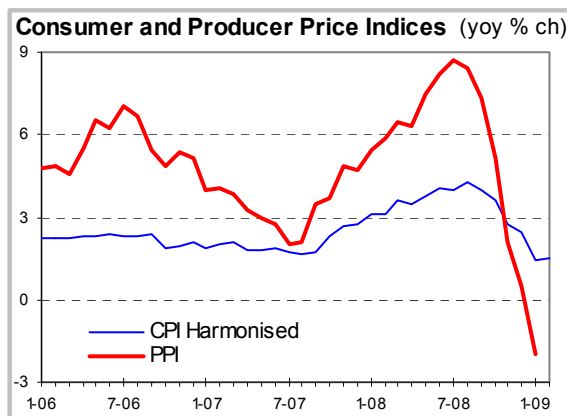
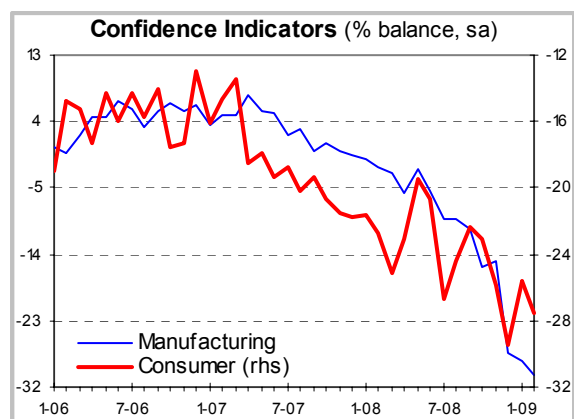
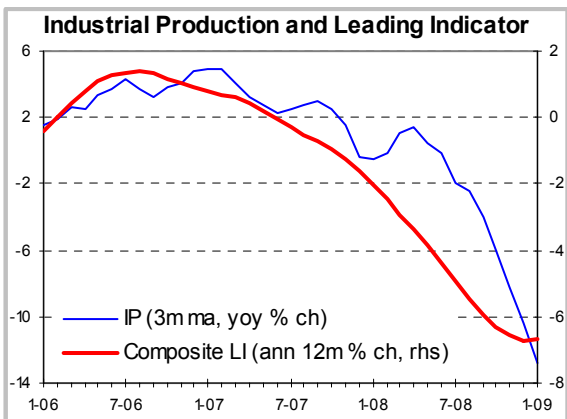
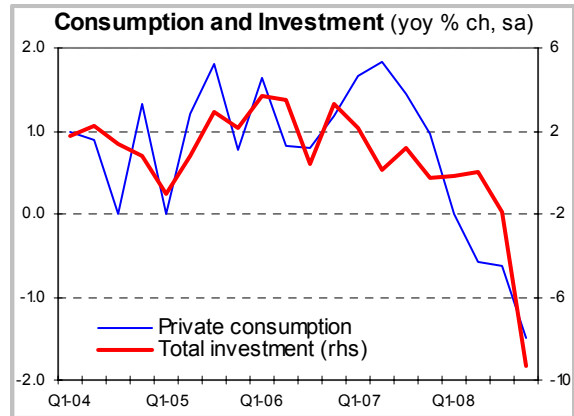
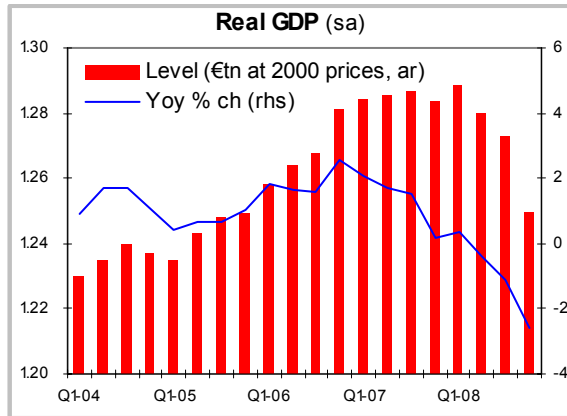
Notes:

* Average over year; ** % change on 31/12/08

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

- National account data for Q4 08 depict an even more dramatic economic scene than previously expected. Real GDP fell by 1.9% qoq yielding a statistical carry-over of -2% to the 2009 performance. More worryingly, in Q4 the contribution from inventories was at 0.4% qoq meaning a significant piling up of unwanted stocks. The Q4 negative result was the third such one in 2008, a sign that Italy entered recession earlier than fellow euro countries.
- The Q4 fall has been led by investment as firms kept retrenching their investment plans in the face of falling demand and tighter credit conditions. In addition, the residential cyclical downturn deepened. The other significant drag were exports which fell 7.4% qoq while import contracted by 6% qoq on the back of falling domestic demand. Net exports dragged thus 0.4% to the quarterly overall growth.
- Albeit maintaining relative resilience over the whole 2008 private consumption has started to suffer and plunged by 0.8% qoq in Q4 (-1.5% yoy). Household confidence remains at very low levels although some improvement in the trend has emerged thanks to the sharp slowdown in inflation.
- Business sentiment is at historical lows and industrial production is in freefall (-16.7%yoy in February). Inevitably, also unemployment is on the rise with 370,000 job losses only in the first two months of this year - and the worst still to come.
- Although the Italian banking system appears less vulnerable than that in other major economies, bank lending continues to be constrained. Several banks may have to avail of state support to boost their capital base particularly those that expanded rapidly outside Italy in recent years and are now exposed to the crisis unfolding in Eastern Europe.
- A fiscal package in support of the real economy has been passed in January but its extent is limited (estimated at 0.2% of GDP for 2009) given concerns about Italy's large government debt. The minister of the economy appears determined to keep the public finances under control to avoid a further sharp widening of interest rate spreads on government debt (the spread between Italian 10y bonds and their benchmark German equivalent was about 150 basis points in early March 2009, compared with 20-30 basis points at end-2007).

ITALY



Sources: OECD, ISTAT, BIS, daily press

SPAIN

Real Indicators*	2006	2007	2008	Latest
GDP (wda)	3.9	3.7	1.2	-0.7 Q4
Industrial Production	3.9	1.9	-6.9	-0.5 Jan**
Construction Investment	5.9	3.8	-4.8	-10.1 Q4
Consumer Prices - Harmonised Index***	3.6	2.8	4.2	0.7 Feb
Producer Prices - Manufacturing***	5.3	3.3	6.6	-0.6 Jan
Hourly Earnings***	4.2	3.4		6.1 Q3
Standardised Unemployment Rate (%)	8.5	8.3	11.3	14.8 Jan
Current Account Balance (€bn)	-87.7	-105.9	-104.4	-104.4 Q4°
as a percentage of GDP	-8.9	-10.1	-9.5	-9.5
Real Effective Exchange Rate Index [§]	115.9	118.0	120.8	118.6 Feb

Notes:

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

Financial Indicators				
Short Term Interest Rate pa (Euro Libor 3m)	3.08	4.28	4.64	1.94 Feb
Long Term Interest Rate pa (benchmark 10y)	3.78	4.31	4.36	4.23 Feb
Stock Exchange (MSE) Index (% ch)*	24.9	23.1	-21.6	-17.0 20/03/09**

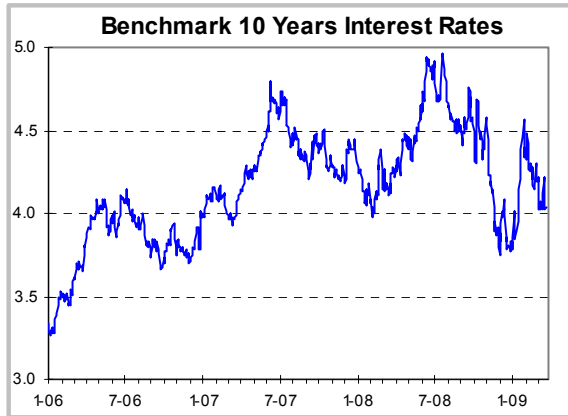
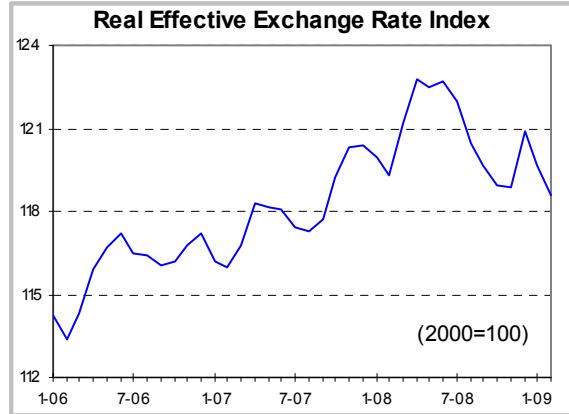
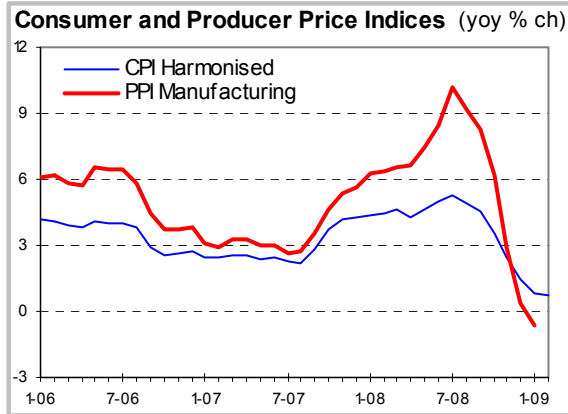
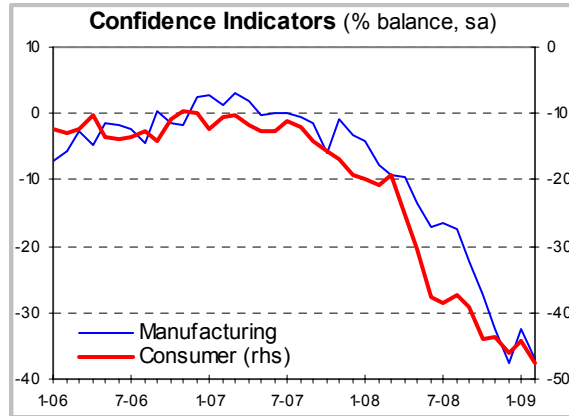
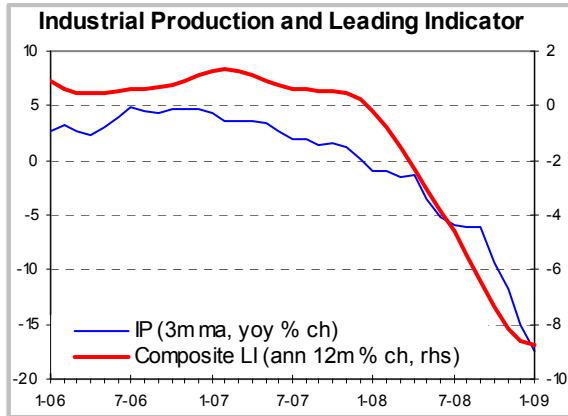
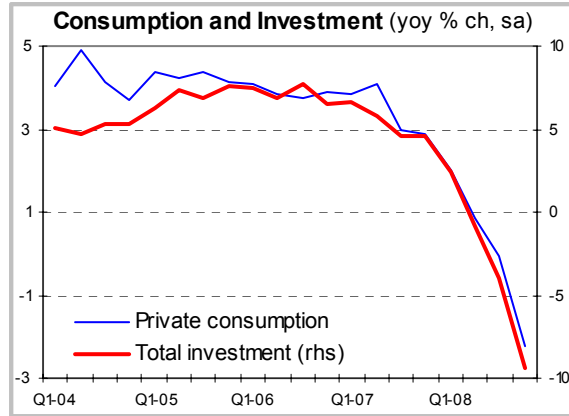
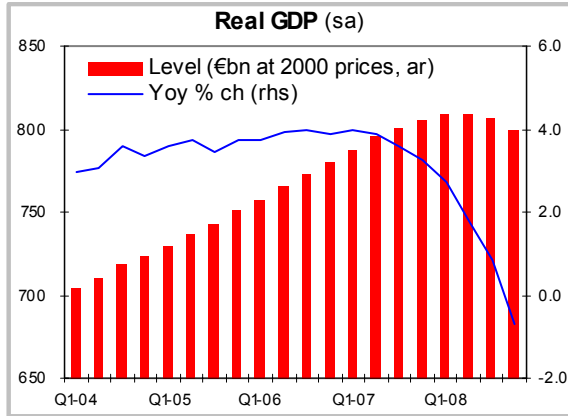
Notes:

* Average over year; ** % change on 31/12/08

Sources: OECD, INE, BIS, daily press

- GDP contracted in the fourth quarter of 2008 (1.0% qoq and 0.7% yoy), sending Spain into outright recession for the first time since 1993. The economy expanded by 1.2% in 2008 as a whole, sharply down from 3.7% in 2007. The recession is attributable to contracting domestic demand, led by a collapse in construction activity, and shrinking consumer spending, and by falling exports owing to the global downturn.
- The latest data suggest that the recession is set to deepen over the next few months: business and consumer confidence are at record-lows, industrial production is plunging (-20.2% yoy in January), as well as retail sales, service-sector activity, and labour-market data.
- Consumer inflation retreated in February. On a national basis, the annual rate of consumer price inflation dropped to a 40-year low of 0.7%. Lower crude oil prices and contracting domestic spending will ensure that inflation falls steadily during 2009. Rising unemployment is in turn likely to dampen wage dynamics.
- The government is pursuing a strongly expansionary fiscal policy to face the economic downturn and the credit squeeze. As a consequence, public finances are heading towards a sharp deterioration. The European Union forecasts that the government deficit will be as high as 6.2% of GDP in 2009, and 5.7% in 2010 (from a 2.2% surplus in 2007). Public debt is expected to rise from an estimated 40% of GDP in 2008 to 53% in 2010.
- Mortgage lending continued to spiral down in early 2009. The demand for housing is falling, but the supply of new properties is still high, which is resulting in a massive glut of unsold properties (estimated around 1 mn). Consequently, house prices are set for a prolonged period of weakness. A sustained fall in house prices is a significant risk to the overall Spanish economy, given that housing equity constitutes around 90% of total households' wealth. As a matter of fact, the Bank of Spain estimates that every 10,000 euro fall in property prices curtails average household spending by 300 euro.

SPAIN



Sources: OECD, INE, BIS, daily press

GREECE

Real Indicators*	2006	2007	2008	Latest
GDP	4.5	4.0	2.9	2.4 Q4
Industrial Production	0.6	2.0	-3.3	-2.0 Dec**
Construction Investment	5.8	1.6	-14.6	0.0 Q4
Consumer Prices - Harmonised Index***	3.3	3.0	4.2	1.8 Feb
Producer Prices – Manufacturing***	6.4	2.7	8.4	-6.1 Jan
Standardised Unemployment Rate (%)	8.9	8.3		7.9 Q4
Current Account Balance (€bn) ***	-23.8	-32.4		-36.0 Q3°
as a percentage of GDP	-11.1	-14.2		-15.1
Real Effective Exchange Rate Index [§]	113.9	116.2	119.4	117.8 Feb

Notes:

* yoy % ch, sa, unless otherwise indicated; ** mom % ch; *** nsa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa	3.08	4.28	4.64	1.94 Feb
Long Term Interest Rate pa (benchmark 10y)	4.07	4.50	4.80	5.70 Feb
Stock Exchange (ASE) Index (% ch)*	26.8	22.2	-30.3	-7.8 20/03/09**

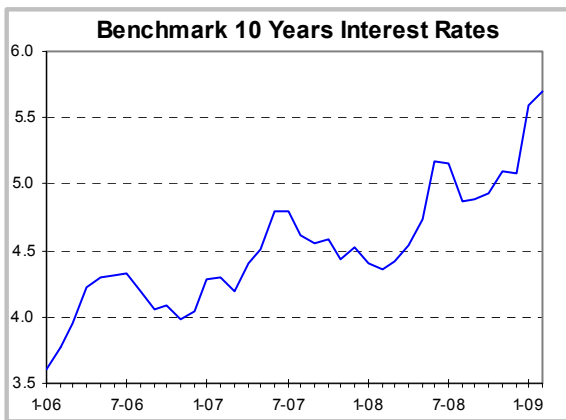
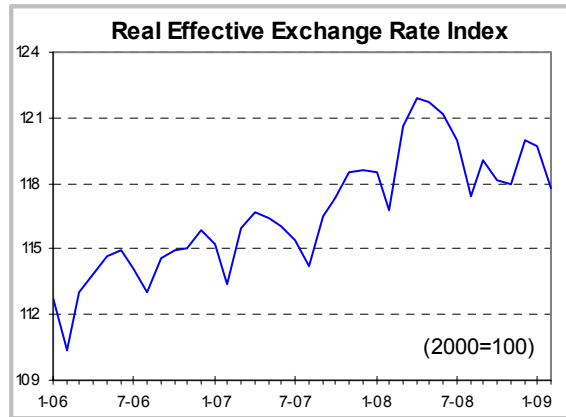
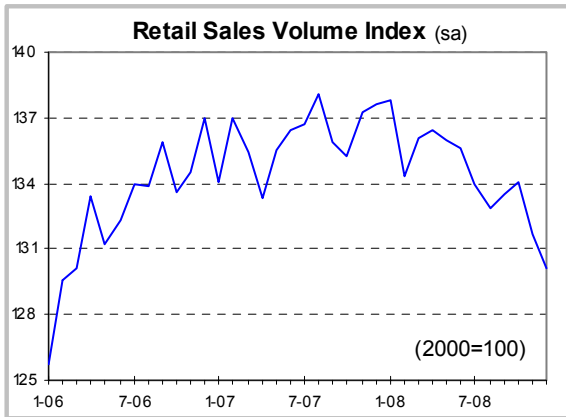
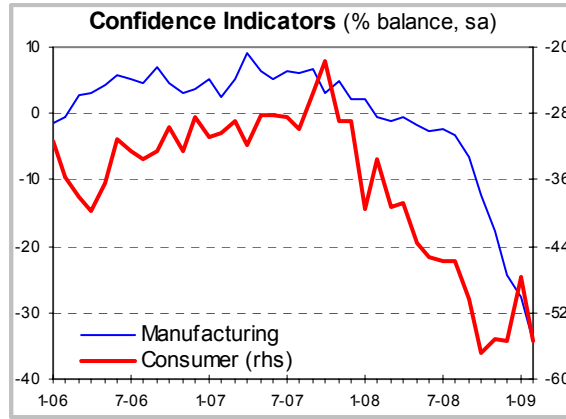
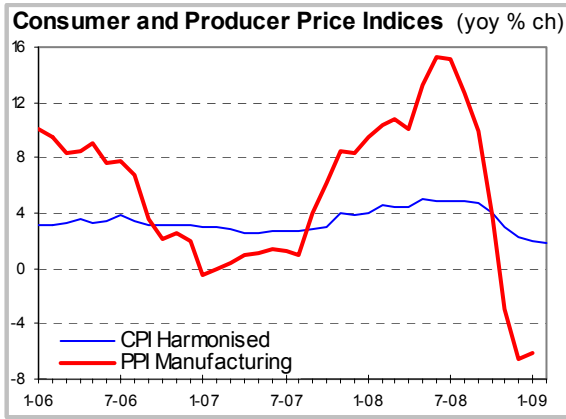
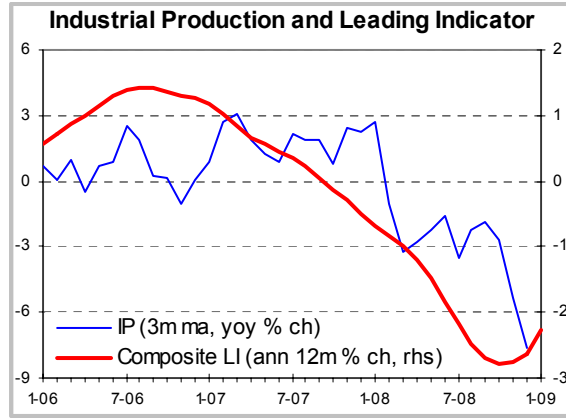
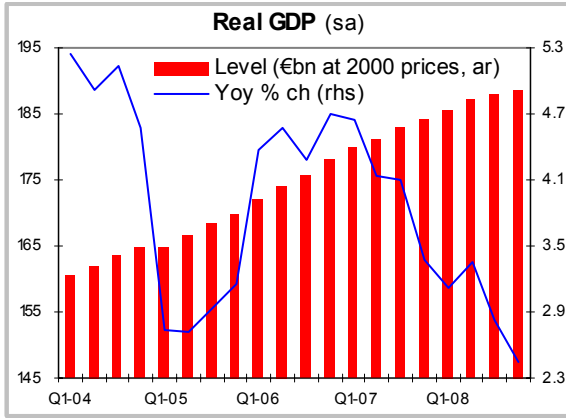
Notes:

* Average over year; ** % change on 31/12/08

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

- Provisional figures released by the National Statistical Service show that GDP rose by 0.3% qoq during the fourth quarter of 2008. Consequently, GDP rose by 2.9% in 2008 as a whole, down from 4.0% in 2007.
- Banks have tightened their credit standards as a direct response to the crisis. This, together with a deteriorating labour market, has weighed down on consumers' decisions. The key shipping sector is being hit by a sharp contraction in international trade, as well as the tourism sector. Furthermore, marked falls in demand stemming from the major trade partners have kept exports in the doldrums.
- Available short-term indicators show that activity is set to weaken further during the coming months. As a matter of fact, both the economic sentiment index and the purchasing managers' index (PMI) for the manufacturing sector reached all-time lows in February.
- In addition, weakening demand prospects and declining capacity utilization, together with the related contraction of profit margins, will exert downside pressure on firms' investment plans.
- Consumer inflation continued to decline in February. Specifically, prices increased by 1.8% yoy, down from 2.0% yoy in January. As it is the case in many other Eurozone countries, this process will continue, and possibly intensify, during the coming months. Lower inflation will only partially offset the negative impact of higher unemployment, tighter credit conditions, and falling asset prices on private consumption.
- Prospects for a fiscal stimulus plan are rather remote given the widening spread on Greek Government bonds. In addition, the budget deficit target for 2009 has been revised up to 3.7% of GDP (from 2%), mainly as an effect of reduced tax revenues in an environment of sluggish economic activity.

GREECE



Sources: OECD, BIS, European Commission

BULGARIA

Real Indicators*	2006	2007	2008	Latest
GDP	6.4	6.1	6.0	3.6 Q4
Gross Fixed Capital Investment	14.7	21.7	20.4	15.8 Q4
Industrial Production - Manufacturing	8.7	9.5	0.7	-15.8 Jan
Consumer Prices	7.4	7.6	12.0	5.4 Feb
Producer Prices - Manufacturing	6.3	7.1	13.1	-4.6 Jan
Unemployment Rate (%)	9.6	7.7	6.4	6.7 Feb
Current Account Balance (US\$bn)	-5.7	-8.7	-12.0	-12.0 Q4°
as a percentage of GDP	-17.8	-21.8	-24.5	-24.5
Real Effective Exchange Rate Index [§]	126.5	134.3	146.9	152.6 Feb

Notes:

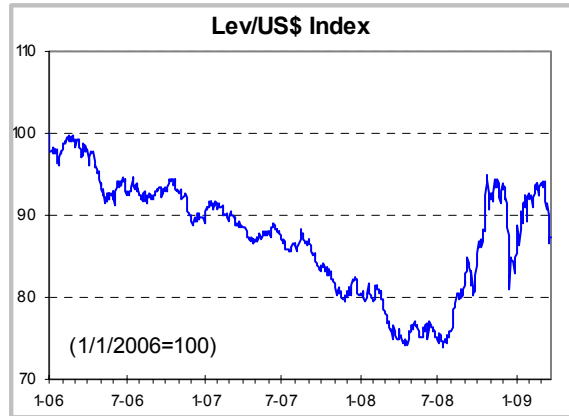
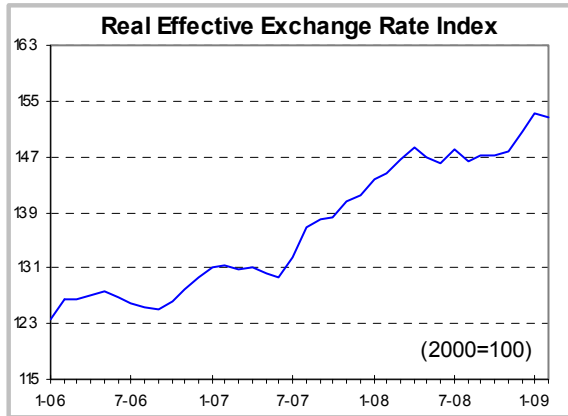
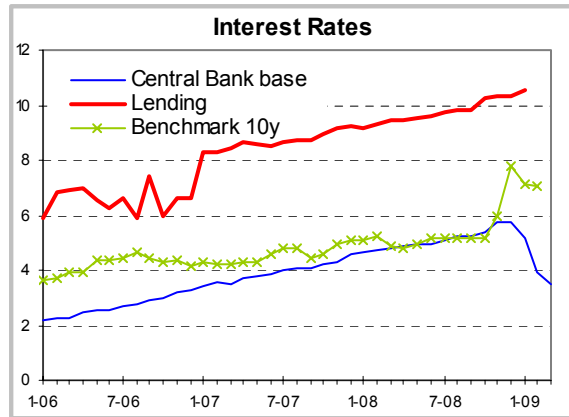
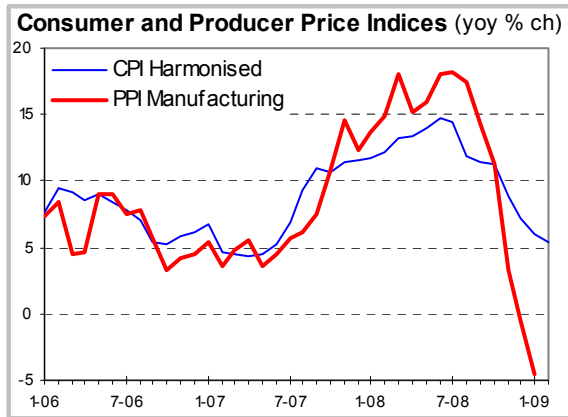
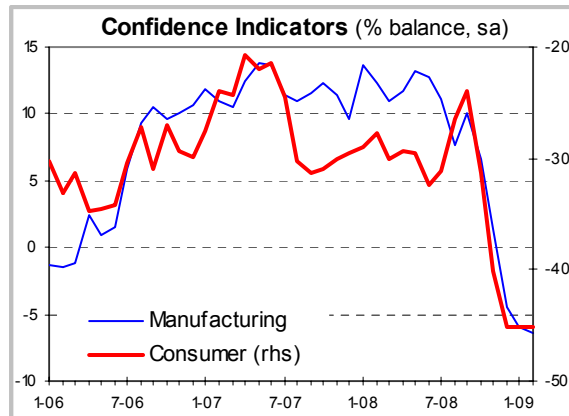
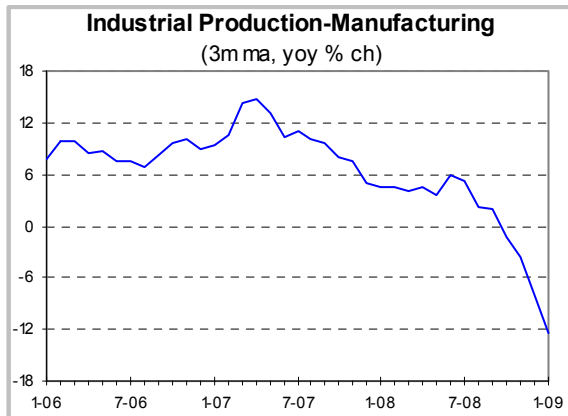
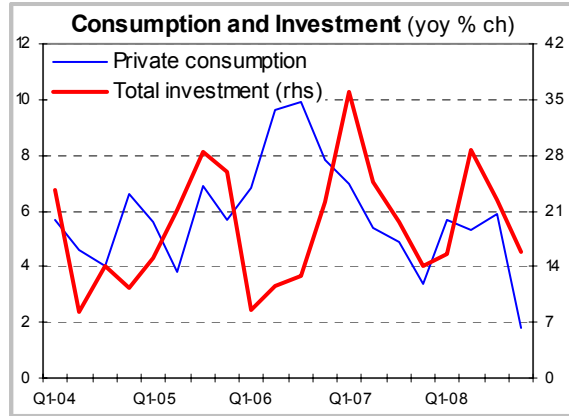
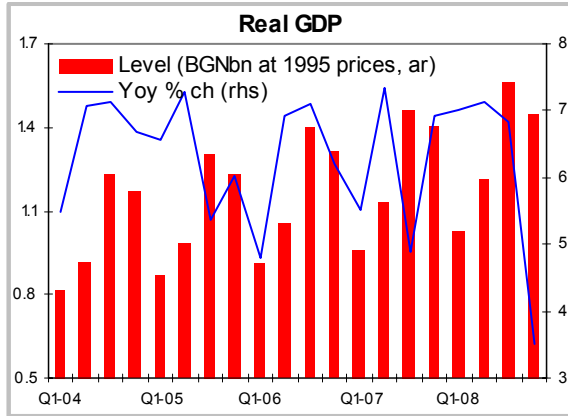
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Financial Indicators				
Short Term Interest Rate pa (sofibor o/n)	2.9	4.1	5.3	4.2 Jan
Short Term Interest Rate pa (sofibor 3m)	3.7	4.9	7.1	7.0 Jan
Long Term Interest Rate pa (benchmark 10y)	4.2	4.5	5.4	7.1 Feb

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

- GDP grew by a meagre 3.6% yoy in Q4 08, dramatically down from the previous quarter 6.8%. Export volumes fell sharply, -6.8% yoy, the worst showing in close to a decade, but also imports fell, by 3.7%, as the domestic economy weakened. Private consumption growth slowed to 3.9% yoy, while gross fixed capital formation deteriorated sharply, growing by 9.7% yoy compared with 22.3% in Q3. Overall annual growth in 2008 was a still healthy 6% but the sharp downturn in Q4 heralds a more troubled time ahead on the back of the negative outlook for exports, weaker foreign capital inflows, tighter credit conditions and plunging business and consumer confidence.
- Manufacturing production plummeted by 15.8% yoy in January, the sharpest contraction since the series was introduced in 2001. On top of falling external and domestic demand, Bulgaria's industrial sector suffered in January from sharp limitations in the supply of natural gas as a result of the Russia-Ukraine dispute (the country relies on imports to cover 90% of domestic gas demand and all imports come from Russia via Ukraine).
- Inflation is coming down fast: after running close to 16% in June last year the latest February reading is down to 5.4% at the consumer level. Producer prices fell in January by 4.6% yoy. The drop in inflation has allowed the Bulgarian National Bank (BNB) to ease its monetary policy. Since it has only limited ability to cut its interest rates, the BNB reduced reserve requirements for domestic banks to 10% from 12% at the beginning of December.
- Given the substantial fiscal buffers, accumulated during the booming years, the government injected a large fiscal stimulus in the last two months of 2008 funded by its surplus (which at the end of 2008 stood at an estimated 3% of GDP). In addition, at the end of last year, the government put forth an investment programme which envisages infrastructure projects worth around €260mn in 2009. However, considering the scale of existing imbalances, the government will likely carefully calibrate any future intervention.
- Bulgaria's current account deficit for the full year 2008 hit a record 24.5% of GDP; however, the ongoing downturn, coupled with lower energy prices, should help improve the country's external accounts. On the other hand, the ongoing global capital squeeze is hitting foreign direct investment (FDI) into Bulgaria, which in 2008 fell to €5.4bn from €6.5bn 2007 (-17%). The external imbalance, particularly in the face of the turmoil on global capital markets, remains thus a matter of serious concern.

BULGARIA



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

EGYPT

Real Indicators*	2006	2007	2008	Latest
GDP	7.0	7.3	6.0	4.1 Q4
Construction Production (Gross Value Added)	10.7	16.2		9.5 Q3
Consumer Prices	7.6	9.3	18.3	13.5 Feb
Producer Prices**			21.3	-2.7 Jan
Unemployment Rate (%)	10.7	9.0		8.6 Q3
Current Account Balance (US\$bn)	2.5	0.2		0.1 Q3°
as a percentage of GDP	2.1	0.2		0.0
Real Effective Exchange Rate Index [§]	64.6	67.6	77.8	83.5 Dec

Notes:

* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; **new series; ° latest 12 months up to Q3 included; § 2000=100, new series

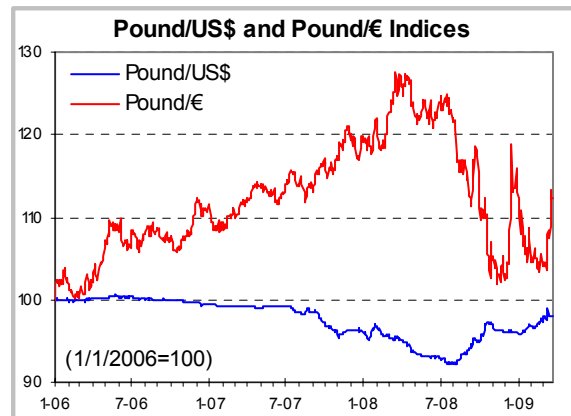
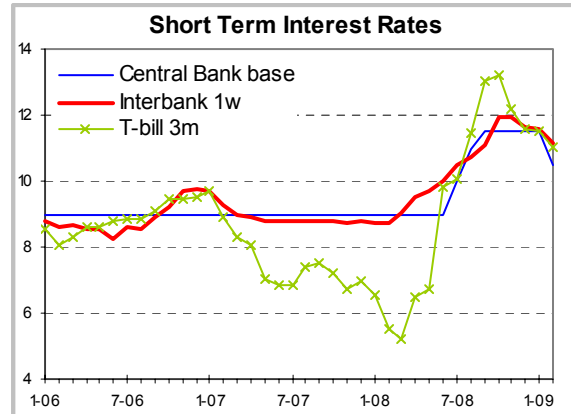
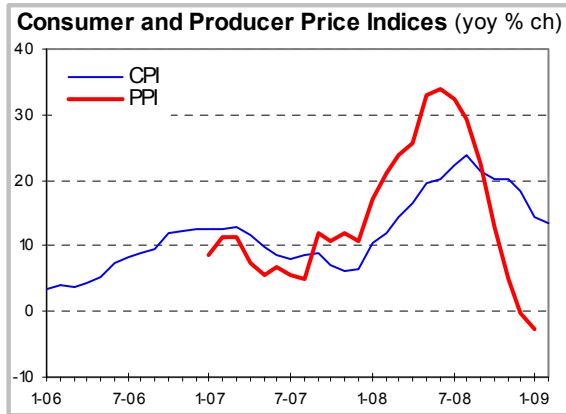
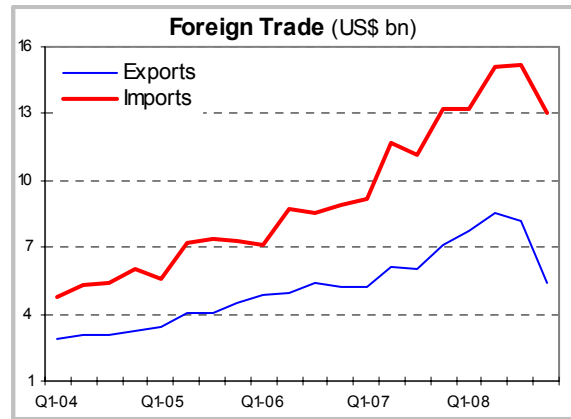
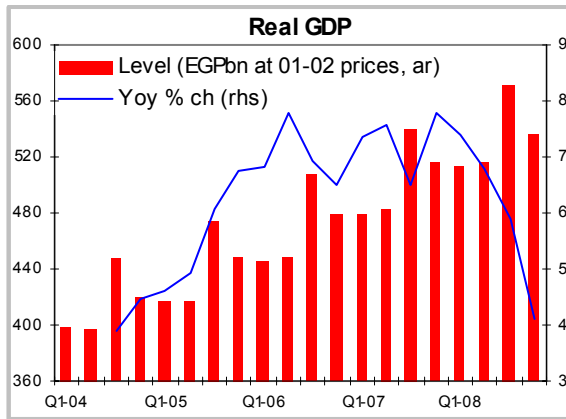
Financial Indicators				
Short Term Interest Rate pa (overnight)	8.6	8.8	10.3	11.6 Jan
Short Term Interest Rate pa (91 days T-Bill)	8.8	7.6	9.3	11.6 Jan
Stock Exchange (HERMES) Index (% ch)*	10.7**	29.2	8.7	-11.8 20/03/09°

Notes:

* Average over year; new series starting from 01/01/2006: HERMES Index; ** yoy % ch at year-end; ° % change on 31/12/08
Sources: Central Bank of Egypt, Central Agency for Public Mobilization and Statistics, SESO's calculation, daily press

- According to preliminary official estimates real GDP growth slowed to 4.1% yoy in Q4 08, down from 5.8% in Q3, bringing overall annual growth to 6%. There are also indications that growth remained buoyant in the construction and hydrocarbon sector while exports have dropped due to faltering external demand.
- In addition to weakening demand for Egyptian goods, the main threats to growth are the ongoing falls in Suez Canal receipts, in tourist numbers, and in foreign direct investment. Migrants' remittances are also dwindling.
- Suez Canal receipts fell in December and January as the waterway has been badly hit by the slowdown in world trade, with the number of vessels passing through down sharply. As for tourism, latest balance of payment data show a 10% yoy decline in revenues in Q4 08 and recent estimates indicate that hotel bookings were down 30% yoy in January 2009.
- Foreign direct investment (FDI) inflows in Q4 08 were 50% less than a year earlier reflecting tighter liquidity conditions in the world and increased risk aversion. Overall in 2008 FDI into Egypt totalled US\$9.5bn down 18% from 2007 US\$11.6bn. Also because of lower capital inflow the Egyptian pound has been, and still is, under downward pressure.
- Last December the government launched a fiscal stimulus package of US\$2.7bn to support the economy in FY 2008/09. The package consists of US\$1.9bn in infrastructure investment and US\$0.8bn in export subsidies and lower tariffs on imported intermediary and capital goods. In addition, further US\$2.7bn are to be funnelled in investments in public private partnerships (PPPs) targeted also to infrastructure projects. Other measures include a one-year freeze of subsidised energy prices for non energy intensive industrial users. Most of these measures will last into FY 2009/10, while planned infrastructure investment will extend into FY 2010/11.
- Consumer price inflation has eased in recent months with the latest reading down to 13.5% in February. Producer price inflation has entered negative territory in December and was -2.7% in January. Given these favourable price developments, in February the Egyptian central bank decided to ease key interest rates for the first time since April 2006 by 100bp.

EGYPT



Sources: Central Bank of Egypt, CAPMAS, daily press

MOROCCO

Real Indicators*	2006	2007	2008	Latest
GDP	7.8	2.7		5.4 Q3
Construction Production (Gross Value Added)	7.9	10.2		9.4 Q3
Industrial Production	3.7	4.6	2.2	-4.4 Q4
Consumer Prices	3.3	2.0	3.9	3.8 Feb
Producer Prices - Manufacturing	5.9	1.8	21.5	9.8 Jan
Urban Unemployment Rate (%)	15.5	15.4	14.7	14.6 Q4
Current Account Balance (US\$bn)	1.4	-0.1		-3.2 Q3°
as a percentage of GDP	2.2	-0.1		-3.8
Real Effective Exchange Rate Index [§]	92.9	92.6	93.9	98.8 Dec

Notes:

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa	2.6	3.3	3.4	3.3 Feb
Stock Exchange (MASI) Index (% ch)*	57.2	55.1	14.4	-1.5 20/03/09**

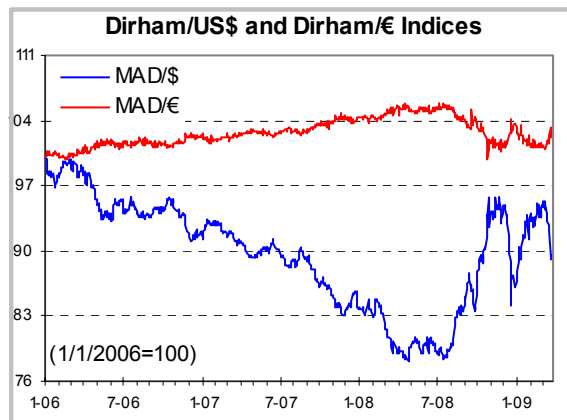
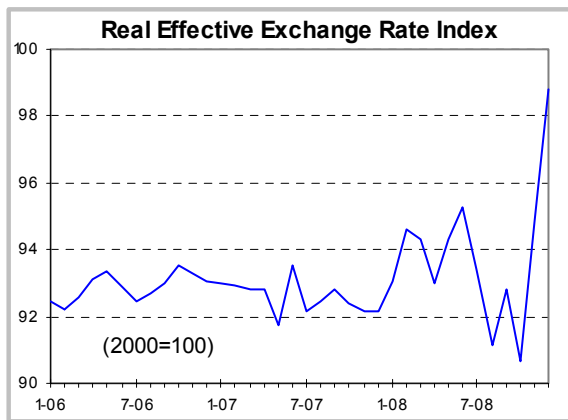
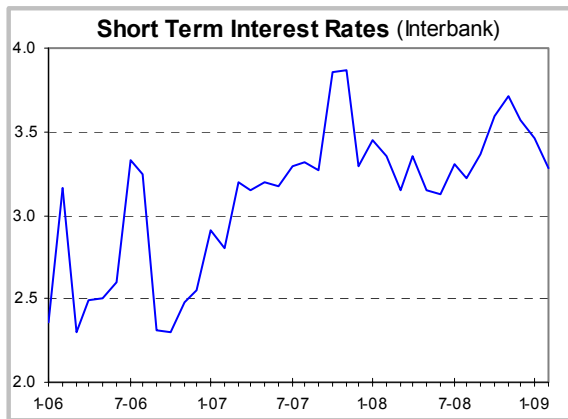
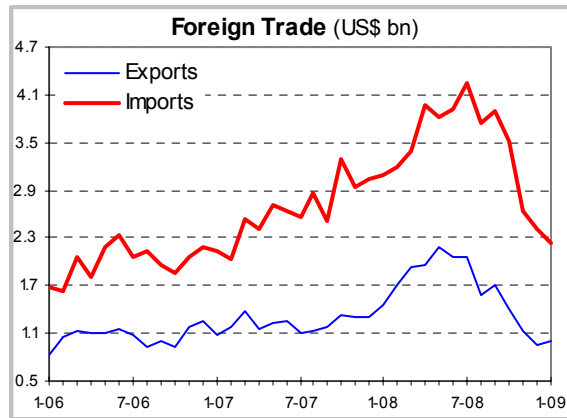
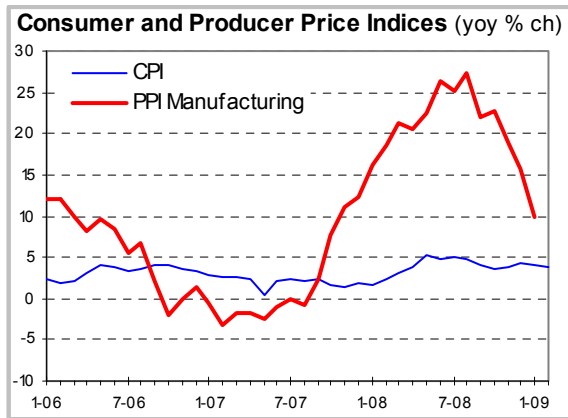
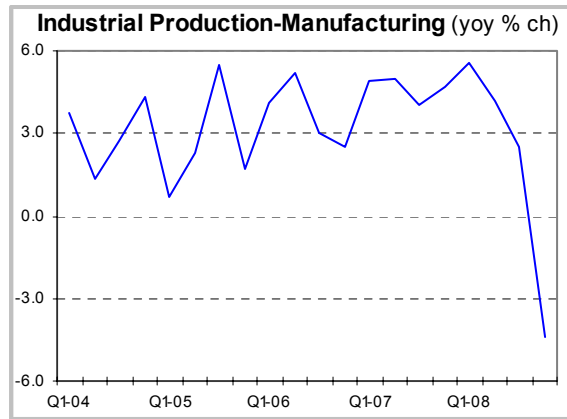
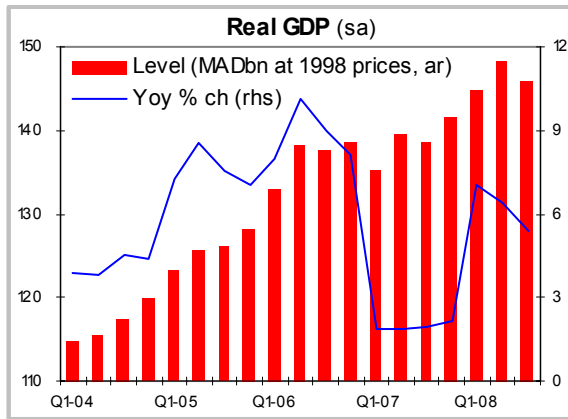
Notes:

* Average over year; ** % change on 31/12/08

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

- GDP growth slowed down to 5.4% yoy in Q3 08, down from 6.4% in the previous quarter, as the global crisis weakened the performance of the export oriented industrial sector and of tourist related activities. According to the National Forecasting Office the Moroccan economy expanded by 5.8% on average in 2008, a figure which implies a further slowdown of GDP in Q4 08 (to around 4.5% yoy).
- This notwithstanding, the government maintains a cautious optimism on 2009 prospects as the 2008/09 agriculture season appears to be promising. The strong harvest should help offset the expected fall in export and tourist receipts and also help avoid a contagion effect to other sectors by sustaining private consumption.
- The government recently announced its intention to help industries hit by the global crisis, in particular textile and auto makers, which will receive financial and technical support (also under the Plan Emergence II). This comes after the release of the preliminary 2009 Budget - which incorporates the budget law for 2009 approved by the end of December last year - that includes a major overhaul of the tax system aimed at reducing the taxpayers' burden together with a 9% increase in salaries of government employees and the re-launch of public investment in 2009. This latter should be pushed up by 23.5% relative to 2008, to MAD132bn (around US\$12bn) and includes important projects involving roads, railways and port construction.
- Inflationary pressures are gradually easing particularly at the producers' level as commodity prices have rapidly come down from last summer's highs.
- As largely expected, export revenues plunged over the past six months given the recession in the euro area. Also, imports fell due to falling commodity prices and the trade deficit narrowed significantly and is expected to continue to do so.
- The Central Bank keeps on maintaining a tight control on the dirham which is pegged to a basket of currencies dominated by the euro. Hence the relative stability vis-à-vis the euro and a relatively ample devaluation vs the US\$ since last July (over 15%) which in real effective terms has meant a devaluation of around 8% in the last three months of 2008.

MOROCCO



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

TURKEY

Real Indicators*	2006	2007	2008	Latest
GDP**	6.9	4.6		0.5 Q3
Industrial Production**	7.8	6.9	-0.8	8.6 Jan***
Construction Investment	17.8	6.0		-3.4 Q3
Consumer Prices	9.6	8.8	10.4	7.7 Feb
Producer Prices - Manufacturing	9.3	5.6	11.8	5.0 Feb
Unemployment Rate (%)	9.9	9.8	10.6	13.6 Dec
Current Account Balance (US\$bn)**	-31.9	-37.7		-47.0 Q3°
as a percentage of GDP	-6.0	-5.7		-6.0
Real Effective Exchange Rate Index [§]	107.3	116.7	118.7	109.8 Feb

Notes:

* yoy % ch, nsa, unless otherwise indicated; ** sa; *** mom % ch ; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (o/n)	15.6	17.2	16.0	12.6 Feb
Stock Exchange (IMBK) Index (% ch)*	35.5	21.1	-21.9	-10.5 20/03/09**

Notes:

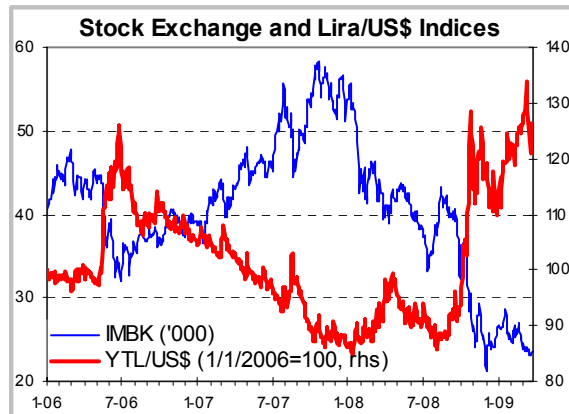
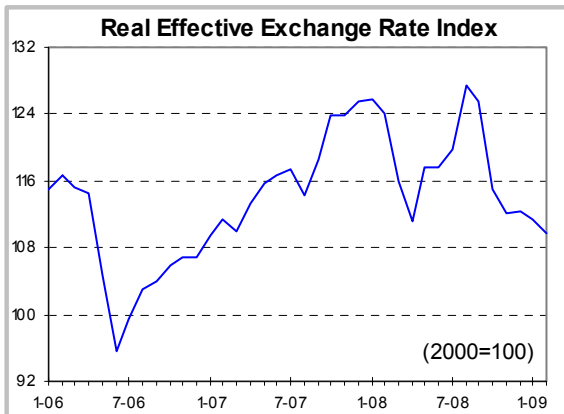
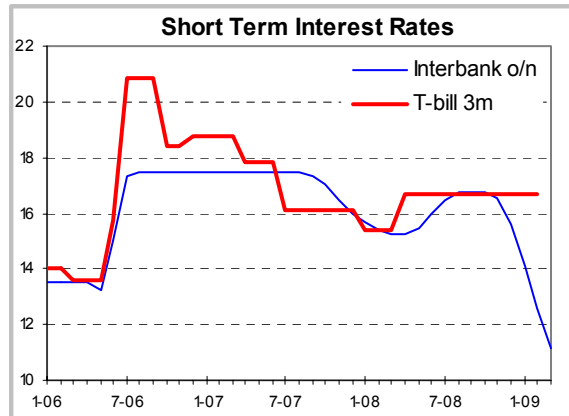
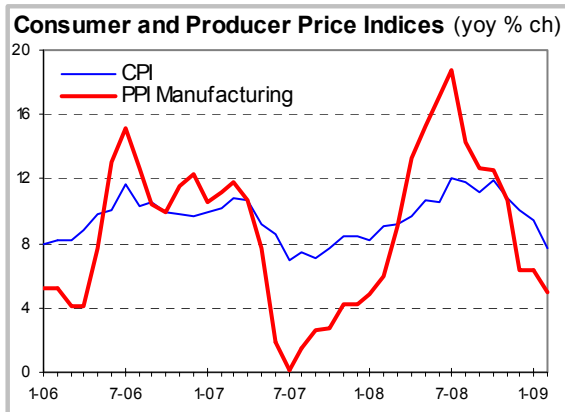
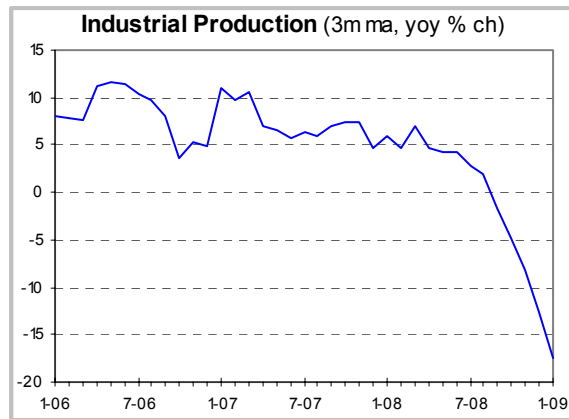
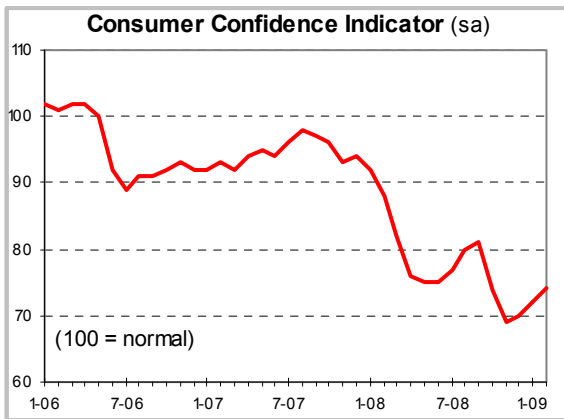
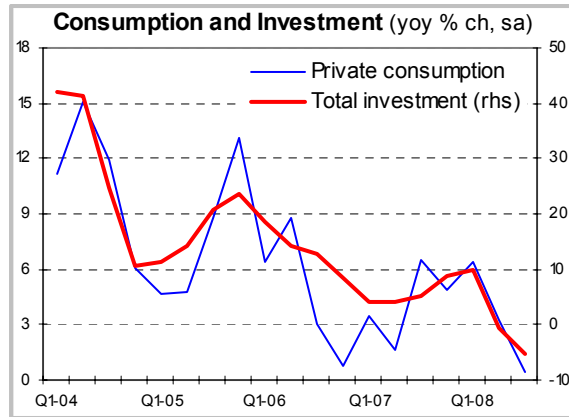
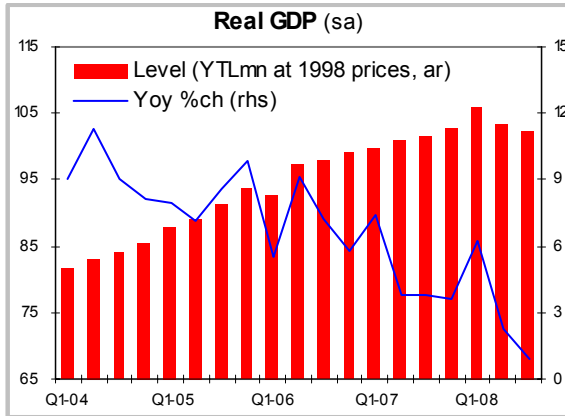
* Average over year; ** % change on 31/12/08

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

- National account data for Q4 08 are not yet available but most indicators suggest that Turkey is in the midst of a serious downturn. The most important blow comes from falling exports which are hitting hard the manufacturing sector. As a consequence of faltering foreign demand, spare capacity is increasing: in February only 63.8% of total manufacturing capacity was being used. Industrial production fell in January by 22.4% yoy, the sixth - and largest - consecutive yoy fall and the index for manufacturing plunged even more sharply (-24.3% yoy). On a monthly base, however, there was a substantial increase (+8.6% and +6.6%) following an exceptional double digit drop in December.
- Among the worst hit industries was automobile production, where output was down by a massive 60.3% yoy, the sharpest decline for more than 14 years. The automotive sector is Turkey's largest export sector. Output from textiles, another large export sector, dropped by 28.3% yoy.
- Reflecting the industrial sector's troubles, unemployment rose sharply last year with 13.6% of the labour force jobless in December, three full percentage points more than a year earlier. In spite of this, consumer confidence continued to rebound from its late 2008 trough albeit remaining rather pessimistic. As a matter of fact, the weakness in domestic demand is reducing significantly inflation which, despite the sharp *lira* devaluation in recent months, is now comfortably below the 10% threshold - hence the repeated policy rate cuts by the Central Bank (the latest being a huge 150bp cut last February).
- In turn, the *lira* continues its slide vs the US\$ on the back of the sharp increase in risk aversion in global capital markets but also because of the dismal industrial performance and of the government inability to strike a deal with the IMF. Turkey has reverted to the IMF for securing financial help in Autumn last year but negotiations got into difficulties again last January primarily on fiscal issues. However, the prevailing view is that a deal will be sealed in the coming months.
- Turkey posted a current account surplus in January - a tremendous turnaround from a year earlier when the country had begun 2008 with a multi-billion deficit - as a consequence of a far more rapid fall in import, another hint of the weakening domestic demand, than the export decline.
- In addition to a series of measures taken in February, widely criticised by the business community for not being large enough and co-ordinated, the government has recently approved a further stimulus package, which includes tax reductions on automobiles, home appliances and real estate. The fiscal balance has deteriorated markedly in recent months ahead of municipal elections.

n. 1 - March, 24th 2009

TURKEY



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

THAILAND

Real Indicators*	2006	2007	2008	Latest
GDP	5.3	4.9	2.7	-4.3 Q4
Industrial Production – Manufacturing	7.3	8.2	5.3	-20.7 Jan**
Construction Investment	4.1	2.0	-5.2	-14.6 Q4
Consumer Prices***	4.6	2.2	5.5	-0.1 Feb
Producer Prices***	7.1	3.2	12.4	-4.0 Feb
Unemployment Rate (%)***	1.5	1.4	1.4	1.4 Dec
Current Account Balance (US\$bn)	2.3	14.0	-0.2	-0.2 Q4°
as a percentage of GDP	1.1	5.7	-0.1	-0.1
Real Effective Exchange Rate Index [§]	105.3	111.6	111.4	107.9 Feb

Notes:

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

Financial Indicators				
Short Term Interest Rate pa (o/n)	4.6	3.8	3.3	1.8 Feb
Stock Exchange Index (Bangkok) (% change)*	4.2	6.5	-10.2	-4.5 20/03/09**

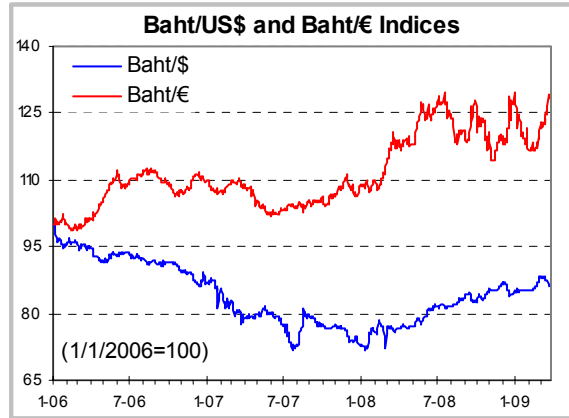
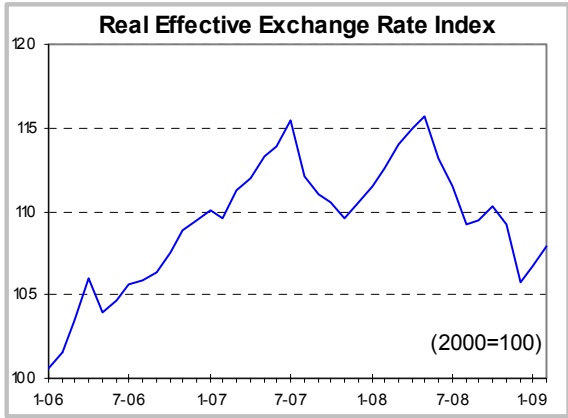
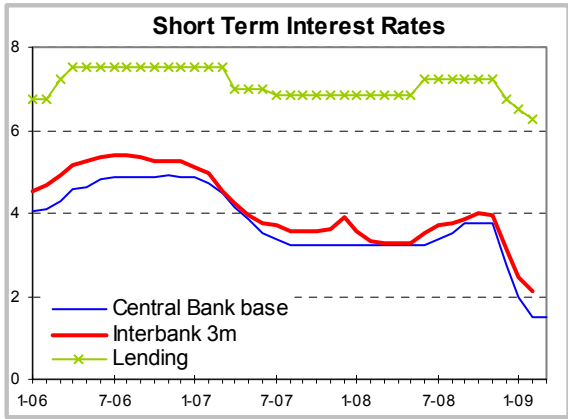
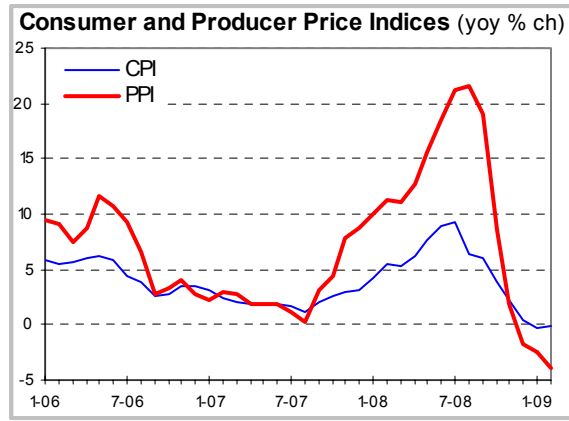
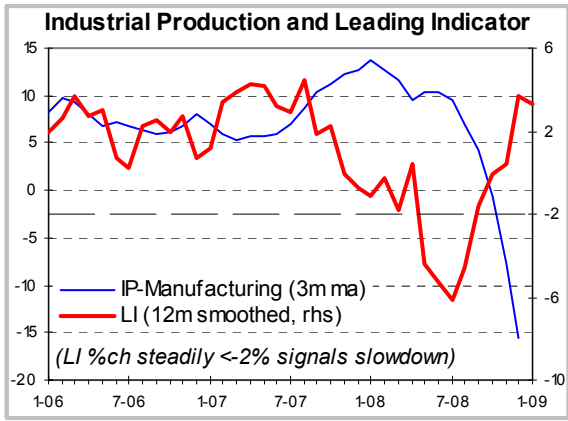
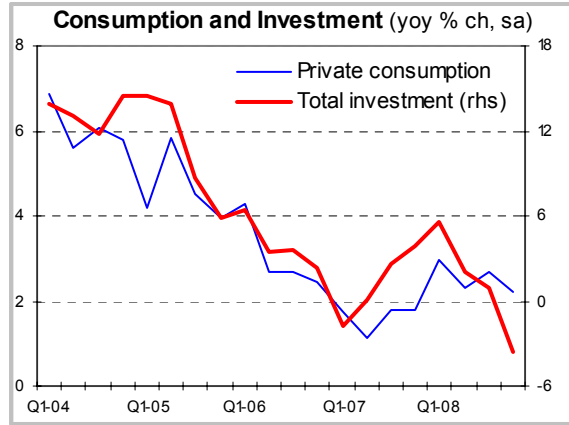
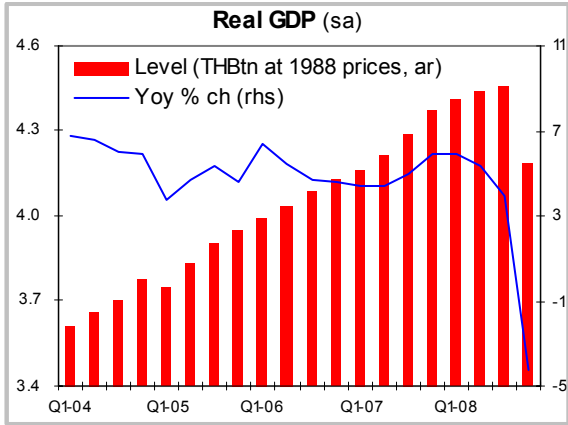
Notes:

* Average over year; ** % change on 31/12/08

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

- GDP shrank by 6.1% qoq in Q4 08, the largest drop in recent history - even larger than the quarterly falls recorded during the Asian crisis. The main culprit was, expectedly, export which fell by 8.6% yoy in Q4 reflecting the perilous state of global demand. This was exacerbated by domestic political turmoil and airport blockades that severely curtailed tourism inflows.
- Although political tension has eased compared to the final months of 2008, nearly three months after the new Prime Minister took office the domestic scene is far from stabilised. This uncertainty has already harmed seriously confidence pushing down both consumption and investment. The latter fell sharply in Q4 08 (-2% qoq and -3.3% yoy).
- Given the plunge in export, manufacturing activity keeps on falling at record rates (-20.7% yoy in January) and prospects remain gloomy. Note, however, that the leading economic indicator has started pointing upwards reflecting primarily positive and accelerating money creation (thanks to the monetary policy turnaround in recent months) and lower oil prices.
- Consumer price inflation remained negative for a second consecutive month in February (-0.1% yoy following -0.4% in January), reflecting the dormant state of domestic demand and the fact that effects from soaring food and fuel prices have abated. Notably, the rate of decline would have been greater if it had not been for cuts in government subsidies which pushed the mom rate of inflation to 1.0%. Furthermore, as core inflation was still positive at 1.8% in February there is little risk that the country may become trapped in a deflationary spiral.
- On the back of a rapid disinflation process the Bank of Thailand has continued its aggressive monetary easing cycle with a further 50bp cut in the policy interest rate late in February, marking the third substantial reduction in as many months. The policy rate now stands at 1.50%, down considerably from 3.75% in November 2008, and further easing may be expected.
- Last January, the parliament passed a US\$3.35bn fiscal stimulus package aimed at bolstering private consumer spending which includes direct cash handouts for low income households, tax cuts, expanded welfare services and subsidies for transport and utilities. The implementation of pro-poor policies appears to be vital in winning support in the rural heartlands of the country - previously loyal to the former government - and ensuring the longevity of the governing coalition.

THAILAND



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

INDIA

Real Indicators*	2006	2007	2008	Latest
GDP**	9.9	9.2	7.4	5.4 Q4
Industrial Production - Manufacturing	11.5	10.6	4.5	-0.8 Jan
Construction Production (Gross Value Added)	13.2	11.1	9.0	6.7 Q4
Consumer Prices	6.2	6.4	8.3	10.4 Jan
Wholesale Prices	4.8	4.8	8.9	3.6 Feb
Current Account Balance (US\$bn)**	-9.5	-11.5		-28.5 Q3°
as a percentage of GDP	-1.2	-1.1		-2.5
Real Effective Exchange Rate Index [§]	102.1	108.9	104.7	99.5 Feb

Notes:

* yoy % ch, nsa, unless otherwise indicated; national accounts data are shown on a solar year basis after transforming the original fiscal year data; ** sa; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Short Term Interest Rate pa (91-day T-bills)	6.4	7.2	7.7	4.7 Jan
Prime Lending Rate	10.9	12.7	13.0	12.0 Feb
Stock Exchange Index (Mumbai) (% ch)*	54.7	35.6	-6.9	-7.1 20/03/09**

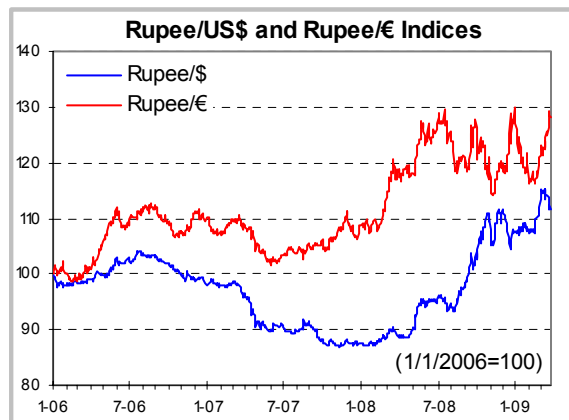
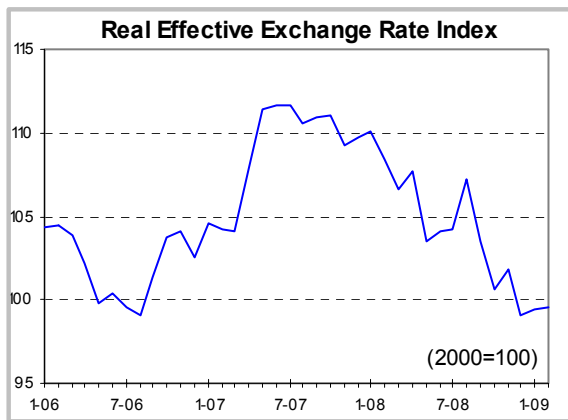
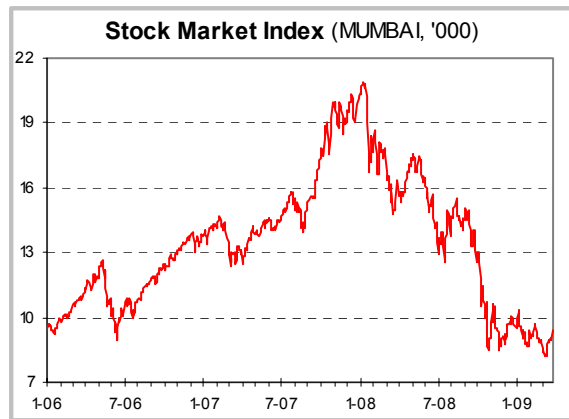
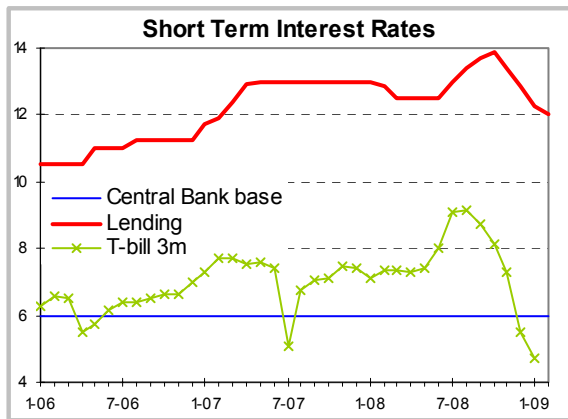
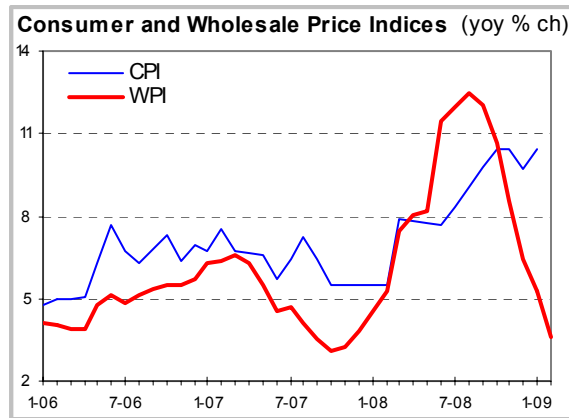
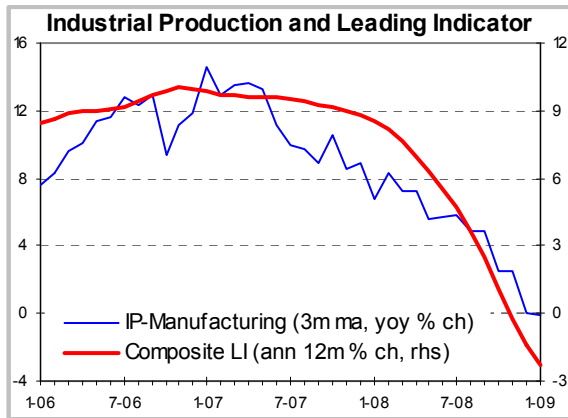
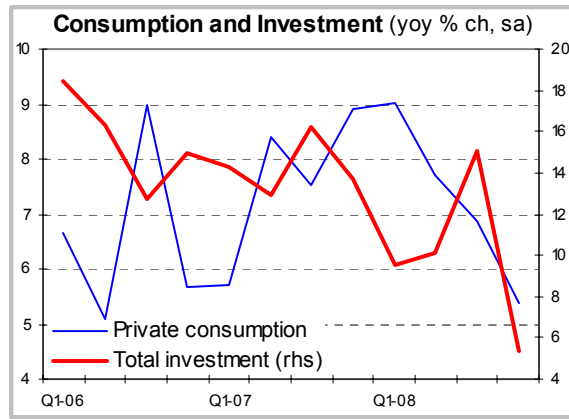
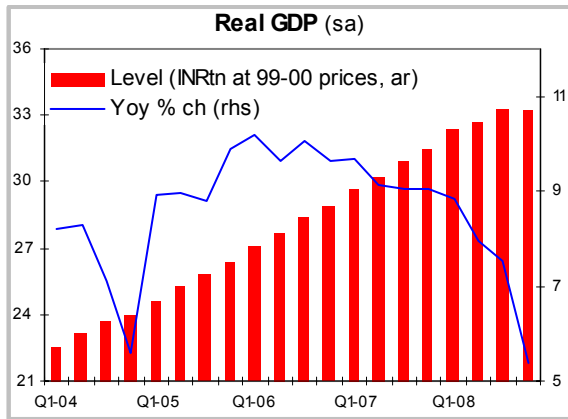
Notes:

* Average over year; ** % change on 31/12/08

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

- After having displayed remarkable resilience over the summer, the Indian economy shed momentum in Q4 08 recording its slowest growth rate in almost six years (+5.3% yoy). While private consumption decelerated mildly (5.4% from 6.9% yoy in Q3) private investment put on the brakes dramatically and rose only 5.3% yoy down from the previous quarter's 15.1%.
- The government had already loosened fiscal policy in last year budget. Two successive stimulus packages were then unveiled last December and January while the interim budget, passed in February, did not include relevant growth boosting measures as the fiscal constraints start biting. The budget estimates a fiscal deficit of 6% of GDP in FY 2008/09, a seven year high, which, according to some analysts, means about 10% at consolidated federal/state level. Hence, further public stimulus will be unlikely, apart from purely non-fiscal measures.
- On the supply side, in Q4 08 output fell in the agriculture sector (-2.2% yoy), in part due to a high base of comparison a year ago, and shrank marginally also in manufacturing (-0.2% yoy), its first contraction in more than a decade. Construction and trade, hotels, transport and communications lost considerable momentum, 6.7% yoy down from 9.7% and 6.8% yoy down from 10.7% respectively compared to Q3. Not surprisingly, community, social and personal services, a category that includes major government spending programmes, expanded by a robust 17.3% yoy.
- India's exports have fallen since October 2008 and shipments plunged by a worrying 16% yoy in January 2009. India is less heavily export dependent than its regional peers: exports of goods and services are equivalent to around 20% of GDP. Still, the export sector is employment intensive, supporting thousands of small and medium-sized manufacturing enterprises. The Federation of Indian Export Organisations, a trade body, estimates that some 10mn jobs could soon be lost without more intense government help as manufacturing production continues its plunge.
- The Reserve Bank of India (RBI) cut its benchmark *repo* rate to 5% early in March for the fifth time since October. Since then, and including this latest cut, the RBI has lowered the *repo* rate by 400bp in an effort to ease the ongoing credit squeeze. As risks to economic growth now far outweigh the danger posed by inflation further monetary easing may be expected. Inflation is however receding at wholesale level while still hovering around 10% at consumer level.

INDIA



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

CHINA

Real Indicators*	2006	2007	2008	Latest
GDP	11.6	13.0	9.0	6.8 Q4
Industrial Production	16.9	17.9	12.6	5.7 Dec
Consumer Prices	1.5	4.8	5.9	-1.6 Feb
Producer Prices	3.0	3.1	7.1	-4.5 Feb
Trade Balance (US\$bn)	217.7	315.4		257.1 Q3°
as a percentage of GDP	8.2	9.6		6.5
Real Effective Exchange Rate Index [§]	92.8	96.7	104.6	117.8 Feb

Notes:

* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
1Y Lending Rate	5.9	6.8	7.1	5.3 Feb
Stock Exchange Index (Shanghai) (% ch)*	39.6	160.7	-27.3	25.3 20/03/09**

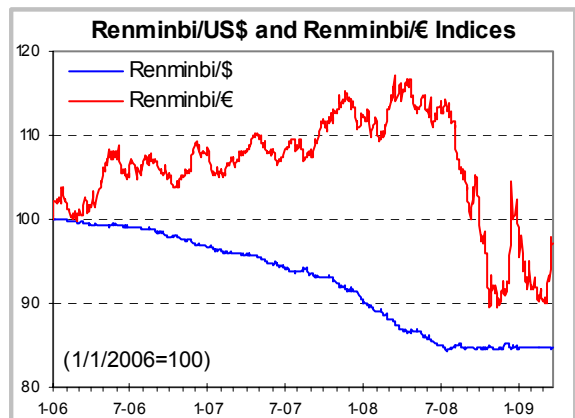
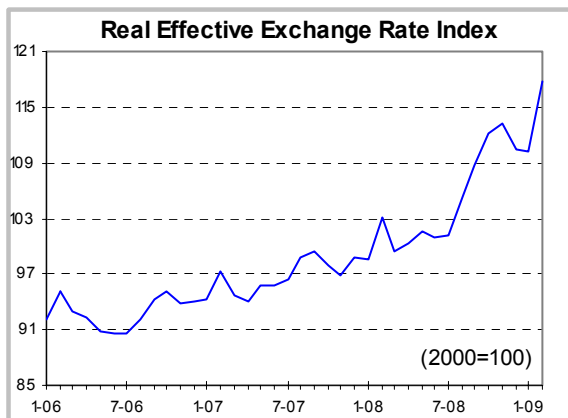
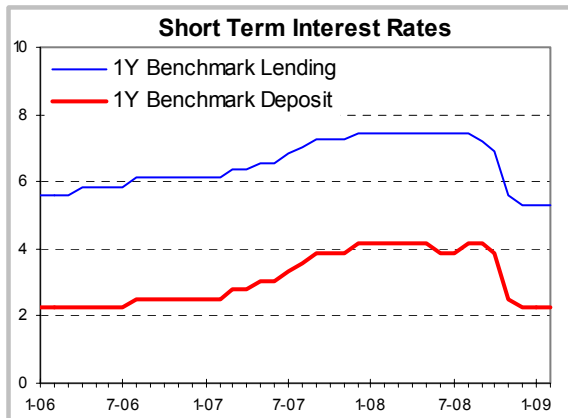
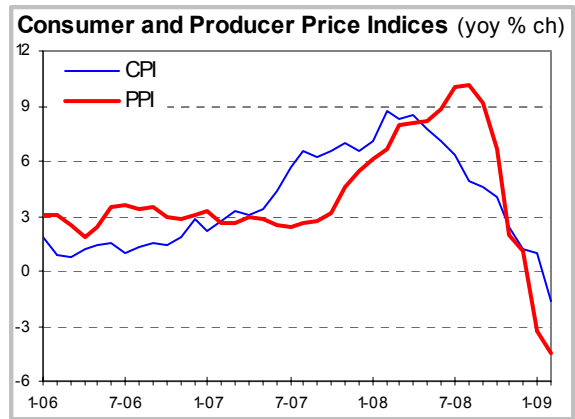
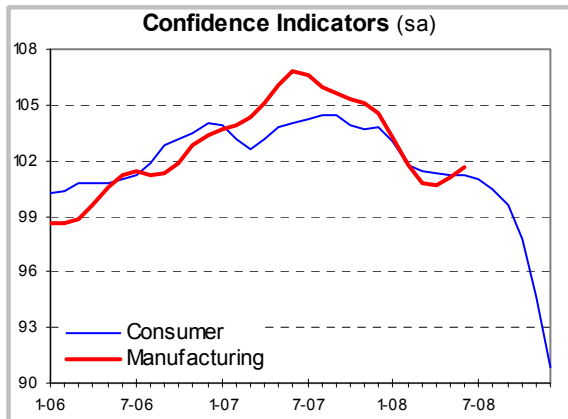
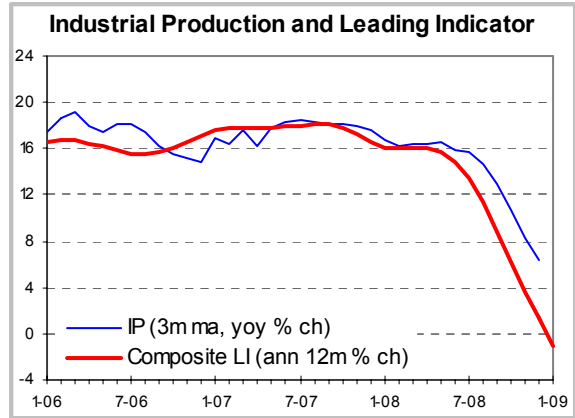
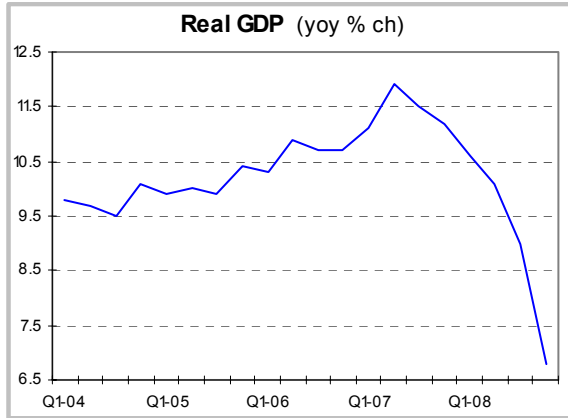
Notes:

* Average over year; ** % change on 31/12/08

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

- Real GDP growth decelerated sharply in Q4 08 to 6.8% yoy, the weakest figure in nearly a decade, on collapsing exports and hefty de-stocking in heavy industries. Domestic demand remained relatively resilient but the outlook for consumption has deteriorated as shown by the ongoing deceleration in retail sales. Given the falling global demand prospects for exports are grim.
- Trade data reveal that exports plummeted by a record 25.7% yoy in February, the deepest decline since 1993. The fall in exports was broad-based across all trade destinations and merchandise sectors. As for imports, the February decline at 24.1% yoy was less dramatic than the -43.1% yoy in January as imports of commodities witnessed strong growth particularly iron ore, oil products, copper and aluminium.
- The import figures reinforce the view that the November RMB4tn (US\$586bn, around 14% of GDP) stimulus package has started filtering through the economy. Real fixed asset investment rose by 30% yoy in the first two months of this year as investment in railways, roads and power grids is already booming.
- The latest data on industrial production add a further glimmer of hope. Albeit the combined January-February figure (traditionally the January data is not reported by the local statistics bureau due to the Chinese New Year festivity) dropped to a historical low of 3.8% yoy, the February industrial output growth rebounded strongly to 11% yoy. Also the purchasing managers' index (PMI) for manufacturing, a main indicator of the sector's activity, rose in February for the third consecutive month, implying a pick-up in the manufacturing sector.
- The allocation of the stimulus fund, which is to be implemented in 2009-2010, has recently undergone some change, as the government has cut the budget for transport infrastructure and planned more funding for low-income housing, healthcare, R&D and industrial structural adjustment. Nevertheless, more than 75% of the plan remains targeted to infrastructure and housing.
- Consumer price inflation continued to trend down in February turning negative at -1.6% yoy, while at the producers' level prices tumbled by 4.5% yoy. The People Bank of China (PBoC) has been aggressively easing its policy stance resulting in a marked acceleration in credit growth in recent months.
- Foreign direct investment inflows fell over 26% in January and February compared to a year earlier. Albeit totalling a still high US\$13bn (for the two months) this provides further indication of the negative impact of the global recession on China's growth and of the persistence of high risk aversion in capital markets.

CHINA



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

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Real Indicators*	2006	2007	2008	Latest
GDP	10.7	8.9	3.2	0.8 Q4
Industrial Production	7.0	4.5	2.7	-4.3 Jan
Consumer Prices	8.7	10.8	17.1	8.7 Feb
Producer Prices	18.5	12.4	36.8	-29.1 Jan
Unemployment Rate (%)	7.6	7.2	6.6	6.7 Q4
Current Account Balance (US\$bn)	-1.9	-7.2		7.1 Q3°
as a percentage of GDP	-2.5	-6.9		5.5
Real Effective Exchange Rate Index [§]	104.1	106.5	112.1	128.1 Jan

Notes:

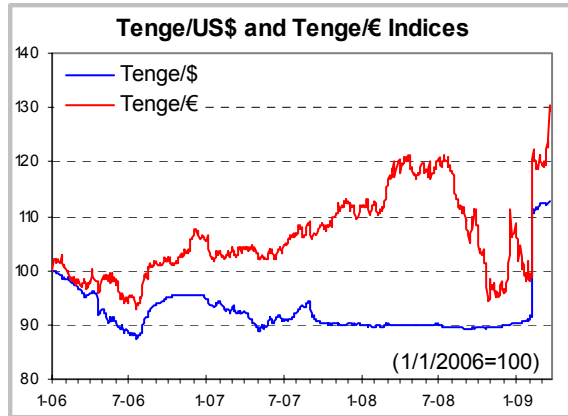
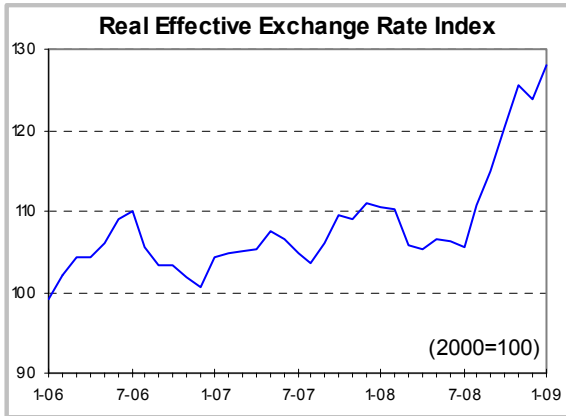
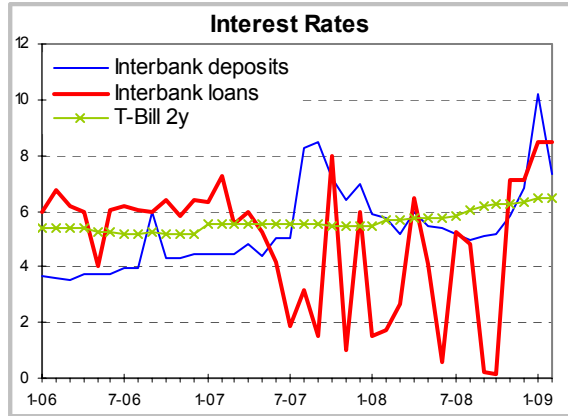
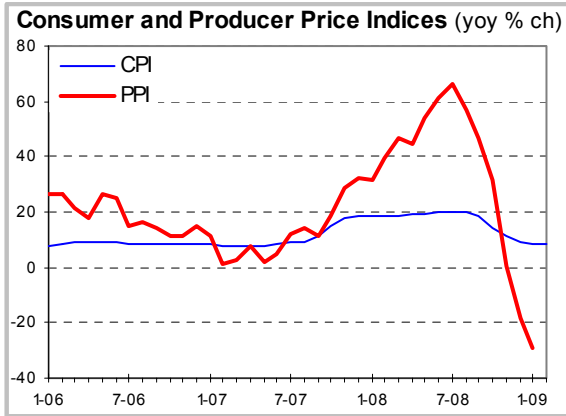
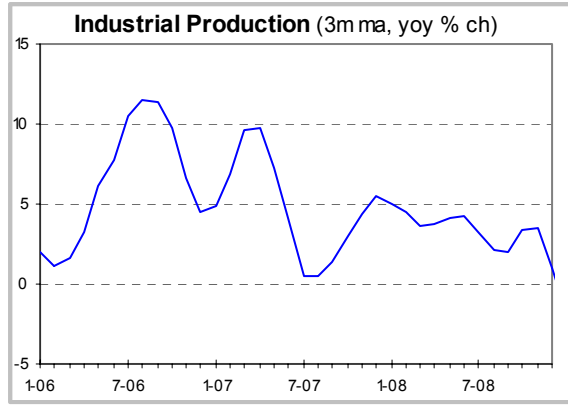
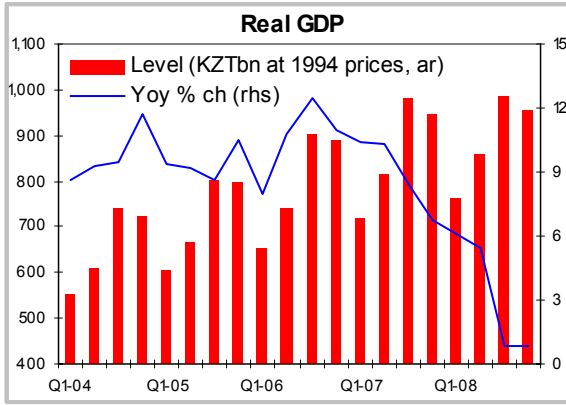
* yoy % ch, nsa, unless otherwise indicated; ° latest 12 months up to Q3 included; § 2000=100

Financial Indicators				
Refinancing Rate (end of period)	8.6	9.2	10.8	9.5 Feb
Short Term Interest Rate pa (<1 year)	3.5	5.6	6.3	6.5 Jan
Exchange Rate Tenge/\$	126.0	122.5	120.3	145.0 Feb

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

- The Kazakh economy is suffering a steep downturn on the back of a serious credit crunch and of falling commodity prices. According to the latest official data the economy grew by 3.2% in 2008 its slowest pace since 1999 with yoy H2 growth at a meagre 0.8%. The sectors suffering most were agriculture and manufacturing, which recorded negative overall performances, while mining and construction deteriorated sharply albeit remaining in positive territory.
- The cooling in the last two sectors was largely expected, given that commodity prices took the plunge since last summer, while construction has been the hardest hit by the sharp slowdown in credit growth (having largely financed its recent remarkable boom with bank loans).
- Continued financial stress in the banking sector, rising downward pressures on reserves and concern on competitiveness loss (as the Russian rouble has plunged) led the National Bank of Kazakhstan (NBK) to let the *tenge* devalue vis-à-vis the US\$ early last February prompting a devaluation which has reached almost 20%. Despite the NBK's pledge to defend the new *tenge* value further downward pressures may persist. In addition, the NBK has further loosened the monetary stance both by means of rate cuts (in January and in February) and of lower minimum reserve requirements for commercial banks.
- Meanwhile the government has taken control of two major banks, the BTA Bank and the Alliance Bank (which together account for about a third of the sector's total assets), getting a stake of 78/76% respectively, and gave assistance to other two banks. The government also designed an Action Plan 2009-10 to help the ailing economy worth around KZT2.1trn (US\$14.4bn at current exchange rate, or around 15% of GDP) of which KZT1.2trn will be financed by the National Oil Fund. The plan includes infrastructure projects, housing and real estate support, and measures to stabilise the financial sector
- Inflation moderated significantly in H2 08 particularly at producers' level, which now reflects much lower oil prices. Consumer price inflation has however stopped falling in February due to the effects of the *tenge* devaluation and of pressures on food prices stemming from a negative 2008 agriculture harvest (most notably for grain, -23%)

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Source: National Bank of Kazakhstan