Economic Analysis

Emerging Markets Economics/Strategy | Emerging EMEA
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Emerging EMEA macro weekly

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The week ahead, the week behind

Central Europe: the focus next week will be on October inflation and the first round of Q3 GDP data. In general, we expect an accelerated and broad-based slowdown in economic growth in Q3 and continued disinflation at the start of Q4.

In **Hungary**, GDP growth likely slowed sharply to 0.9%YoY in Q3 on our estimates (from 2.0%YoY in Q2), driven by a collapse in industrial activity – the only growth driver, so far. With other sectors of the economy (retail, construction) still in recession, the now official recession in industry (IP trend is the weakest on record, at -2.1%YoY, 4-month median) suggests a looming full-blown recession.

South Africa: next week is expected to be quiet on the macro data front. The only major releases scheduled are the September manufacturing output and retail sales data. We expect a temporary rebound in manufacturing (from 0.4%YoY to 7.0%), while the contraction in real retail sales likely continued (-5.8%YoY).

Turkey: the main macro releases are September industrial production and the current account balance. Another year-on-year contraction in industrial output is likely, while the resultant improvement in the C/A deficit would be welcomed.

Russia: the main event of this week was the first annual address of President Medvedev to the Federal Council, in which he formulated the main ideas and views of the current administration on geopolitical, institutional and economic issues (see Russia: president's Address, 5 November 2008).

Emerging EMEA macro focus

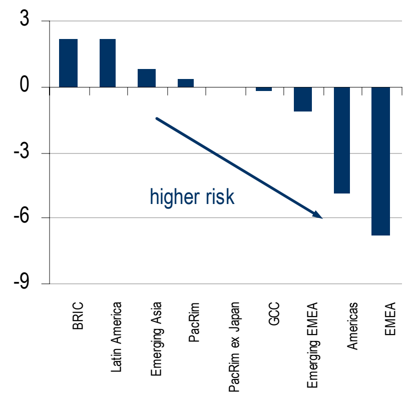
Everything you've ever wanted to know about the world* *(*and were not afraid to ask)* **(p.6**). In turbulent times investors re-discover the 'old school' of analysing country risk. In this note we present a (subjective) ranking for all major world economies and regions that we cover and nearly 5000 economic/risk indicators to digest.

GCC: fighting back (p.11) GCC governments are willing to limit the spillover effects of the global turmoil on their economies. Despite their large twin surpluses, this is still a challenging task as growth will slow down and their surpluses will erode. Considering the lower oil prices, deepened credit crunch and deleveraging, we have revisited the FAQs and listed the recent policy actions.

Major forecast changes

Czech Republic and **Slovakia**: given that co-ordinated monetary easing in Europe is gaining momentum and following the larger-than-expected rate cut by the CNB (75bp, to 2.75%), we have revised down our interest rate forecasts for the Czech Republic (to 2.50% in end-2008, and to 2.00% in 2009) and Slovakia (to 3.00% in end-2008). **GCC:** we revised down our 2009 GDP growth forecasts for the GCC region to 3.5% (from 4.5% previously).

Chart of the week:
ML vulnerability risk ranking by regions



Source: Merrill Lynch.
*Deviation of the region's aggregate risk ranking from median score (pts).

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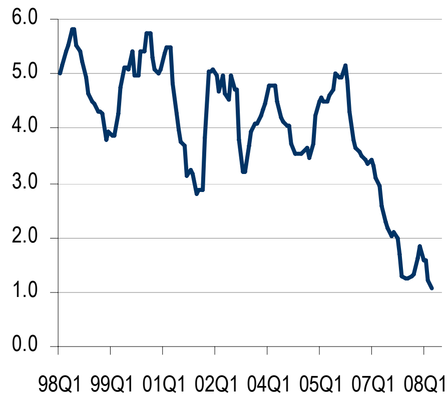
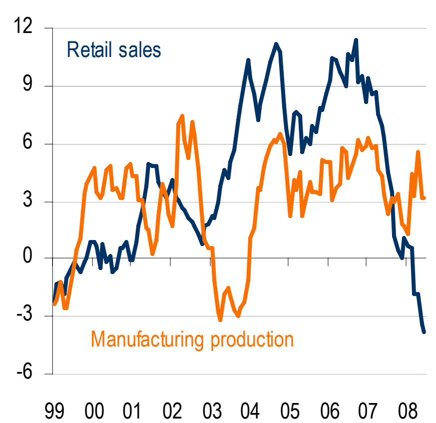
Chart 1: Hungary – our monthly GDP proxy* suggests GDP growth might slow to (or below) 1% YoY in Q3 – close to all-time lows



Source: Merrill Lynch. *Supply side-based OLS regression model. Last plot is based on high-frequency activity indicators for September.

Chart 2: South Africa – retail sales vs manufacturing production (%YoY, 3mma)



Source: Reuters EcoWin, Merrill Lynch.

The week ahead, the week behind

CEE: growth slowdown gaining momentum

In **Central Europe**, the focus next week will be on October inflation and the first round of Q3 GDP data. In general, we expect an accelerated and broad-based slowdown in economic growth in Q3 and continued disinflation at the start of Q4.

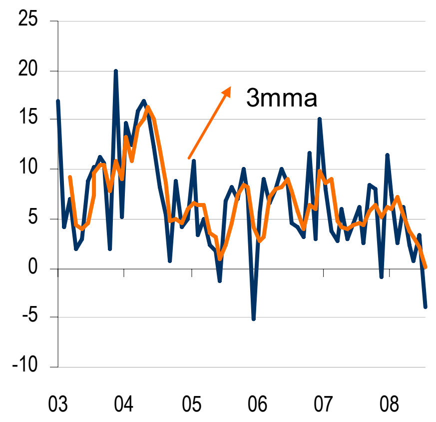
In **Hungary**, GDP growth likely slowed sharply to 0.9%YoY in Q3 on our estimates (from 2.0%YoY in Q2), driven by a collapse in industrial activity – the only growth driver, so far. With other sectors of the economy (retail, construction) still in recession, the now official recession in industry (IP trend is the weakest on record, at -2.1%YoY, 4-month median) suggests a looming full-blown recession in the economy. Recall last week we revised our 2009 GDP forecast down to -0.7% vs +1.5% expected this year. CPI inflation likely continued its descent in October to 5.3%YoY on our forecasts (down from 5.7% in September), driven by a combination of: (1) underlying disinflation (core inflation at 5.1%YoY vs nearly 6% three months ago with short-term trend running at c.4.6%); (2) a plunge in commodity prices, and (3) favourable base effects.

In **Poland**, CPI inflation likely eased to 4.2-4.3% in October, down from 4.5% in September. Unlike elsewhere in CEE, the decline was solely due to a drop in global commodity prices (food and fuels), while core inflation remains elevated at above 4%YoY showing no signs of falling. In **the Czech Republic**, CPI inflation likely continued to decline in October. We forecast the headline rate at 6.2%YoY vs 6.6% in September. Recall, however, that all YoY indices are “inflated” by regulated and quasi-regulated rate price hikes in early-2008. The current short-term trend (six-month trimmed mean of %MoM seasonally-adjusted changes) for headline and underlying inflation is running at 2.0-2.5%, suggesting that CPI should drop towards these levels by early-2009. **(R.Bodys)**

South Africa: slowing activity all round

In **South Africa**, next week is expected to be relatively quiet on the macro data front. The only major releases scheduled are the September manufacturing production and retail sales data. We expect a temporary rebound in manufacturing output growth, from 0.4%YoY to 7.0%, purely due to favourable base effects. While the rand’s sell-off in October and the series of petrol price cuts of late should take some strain off the sector, the slowdown in demand growth is spreading, while access to credit is also becoming a constraining factor. We expect the contraction in real retail sales to have continued in September at -5.8%YoY. Our full year estimate is -2.7%, well down on the 5.1% recorded in 2007 and the 9.6% increase in 2006. **(C.Nel)**

Chart 3: Turkey - industrial output (no-)growth (%YoY)



Source: Turkstat.

Turkey: weaker growth, smaller CA deficit

In **Turkey**, the main macro releases are September industrial production and the current account balance. Another year-on-year contraction in industrial output is likely, while some improvement in the current account deficit would be welcomed.

The sharp depreciation in the TRY and higher rates in Q4 2008 is likely to cause very weak economic activity data through to the end of the year. In times of sharp negative moves in financial markets and the TRY, both consumers and companies prefer to sit on their hands than make any spending decisions. This is now becoming evident in consumer and business confidence surveys. Moreover, external demand is weakening rapidly. Production cuts in the auto industry, which has been the main driver of industrial production so far, due to weaker EU demand, will take its toll on industrial production in the coming months. Following the 4% year-on-year contraction in industrial production in August, we expect to see another negative reading in September, -2% YoY. While this will drag down quarterly industrial production growth to -0.9% in Q3, the contraction should gain pace in Q4 2008 and Q1 2009. The silver lining is that the current account balance will improve with lower commodity prices and weaker growth. We pencilled in a current account deficit of US$1.2bn for September, which should bring down the 12-month trailing deficit for the first time since early 2007. We expect the CA deficit to reach 6.4% of GDP this year and fall to 5.5% of GDP in 2009. **(T.Hamzaoglu)**

Russia & CIS: forums' week

In **Russia**, the main event of this week was the first annual address of President Medvedev to the Federal Council, in which he formulated the main ideas and views of the current administration on geopolitical, institutional and economic issues (see Russia: president's Address, 5 November 2008). Although we hope the harshness of the message was for domestic use only, we do not rule out that Russia may promote similar views next week at a number of international forums. On 14 November, President Medvedev will likely articulate his views at the Russia-EU summit. On 15 November, the global summit in Washington is scheduled. We expect Medvedev to stress the thesis that emerging markets, and BRIC countries in particular, are likely to be the main locomotive of global growth. Russia may use the current situation to revive its international cooperation, in particular WTO negotiations and seek to assume a more important role in political and financial spheres. However, we believe gaining more political weight in the changing global environment is possible only if Russia manages to maintain its solid economic performance. We expect more certainty on the issue in the coming months once the launched rescue plan has had a chance to prove its success. **(J.Tsepliaeva, I.Bokhmat)**

Emerging EMEA economic calendar

Importance	Time*	Country	Statistic	Unit	ML Forecast	Bloomberg Consensus†	Last	Comments
Sometime during the week:								
✪✪✪	--	Kazakhstan	Industrial production (Oct)		2.8	2.1	3.0	Although we do not expect a rebound in industrial growth in the current environment of declining oil prices and a liquidity crunch, we expect good performance in manufacturing production on the back of a dramatic drop in PPI inflation.
✪✪✪	15.00	Turkey	CA balance (Sep)	USD bn	-1.2	n/a	-3.3	The effects of lower commodity prices and weakening domestic demand are likely to start feeding into the current account balance. A decline in the CA deficit on a 12M rolling basis would be welcomed.
Monday 10 Nov								
✪✪✪	08.00	Czech Rep.	CPI inflation (Oct)	%YoY	6.2	6.2	6.6	CPI inflation likely continued to decline in October. We forecast the headline rate at 6.2%YoY vs 6.6% in September. Recall, however, that all year-on-year indices are "inflated" by regulated and quasi-regulated rate price hikes in early 2008. The current short-term trend (6-month trimmed mean of %MoM seasonally adjusted changes) for headline and underlying inflation is running at 2.0-2.5%, suggesting that CPI should collapse towards these levels by early 2009.
✪✪✪	08.00	Turkey	Industrial output (Sep)	%YoY	-2.0	n/a	-4.0	Industrial production is losing steam as exports have also started to slow. With a weaker TRY and higher rates in Q408, expect the weakening trend to become more pronounced.
✪✪✪	09.00	Egypt	CPI inflation (Oct)	%YoY	21.1	n/a	21.5	CPI inflation peaked in Aug'08 and has started to creep down. We see CPI inflation at around 20% at year end and it should move down to 12% by Dec'09. Central Bank of Egypt is likely to start cutting rates shortly to support growth.
Tuesday 11 Nov								
✪✪	--	Russia	Trade balance (Sep)	USD bn	16.5	15.4	18.5	As oil prices affect oil exports with a 1-3 month lag, we expect a slowdown in the trade surplus. However, in Sep-Oct it is likely to be gradual.
✪✪✪	08.00	Hungary	CPI inflation (Oct)	%YoY	5.3	n/a	5.7	CPI inflation likely continued its descent in October, falling to 5.3%YoY on our forecasts (down from 5.7% in September), driven by a combination of: (1) underlying disinflation (core inflation at 5.1%YoY vs nearly 6% three months ago with the short-term trend running at c.4.6%), (2) plunging commodity prices, and (3) favourable base effects.
✪✪✪	08.00	Romania	CPI inflation (Oct)	%YoY	7.0	n/a	7.3	As elsewhere in the region, inflation in Romania likely also eased in October, probably falling to 7.0%YoY.
✪	11.00	South Africa	Manufacturing production (Sep)	%YoY	7.0	n/a	0.4	The sharp rebound in output growth is purely due to base effects given the muted and largely seasonal 1.5% MoM forecast increase. On a seasonally adjusted basis we expect a 0.9% increase. While lower fuel costs and the weaker rand should take some of the strain off the sector, slowing domestic demand is now compounded by a marked deceleration in global growth.
Wednesday 12 Nov								
✪✪	--	Romania	Current account (Sep)	EUR mn, YTD	n/a	n/a	-10,006	
✪✪	--	Kazakhstan	Real wages (Sep)	%YoY	1.0	n/a	-2.8%	Real wage growth is likely to return to positive territory, as inflation significantly slowed in September. Nevertheless, we do not expect real wage growth to exceed 4% YoY in the coming 12 months and thus a consumption boom is unlikely.
✪	9.00	South Africa	Retail sales (Sep)	%YoY	-5.8	n/a	-5.5	Despite falling petrol prices, retail sales likely remained under strain due to still-high food inflation and limited access to credit. We expect a 1.3% MoM decline on a seasonally adjusted basis.

Importance	Time*	Country	Statistic	Unit	ML Forecast	Bloomberg Consensus†	Last	Comments
✪✪	13.00	Poland	Current account (Sep)	EUR mn	-1912	-1837	-1736	Current account deficit likely widened in September, probably more-than-doubling from the previous year, and taking the 12-month current account deficit up to -5.2% of GDP (from -5.0% of GDP a month earlier). Our forecast C/A deficit widening in part reflects the underlying widening of the trade deficit, and in part the deterioration on transfers balance due to a sharp decline in net transfers with the EU (EUR -53mn vs +612mn in August and +756mn in September 2007).
Thursday 13 Nov								
✪✪	09.00	Czech Rep.	Current account (Sep)	CZK bn	-3.0	-1.95	-12.17	The current account likely posted a small deficit in September, leaving the 12-month CAB roughly flat from the previous month at -2.3% of GDP.
✪✪✪	13.00	Poland	CPI inflation (Oct)	%YoY	4.25	n/a	4.5	Poland's CPI inflation likely eased to 4.2-4.3% in October, down from 4.5% in September. Unlike elsewhere in CEE, however, the decline was solely due to a decline in global commodity prices (food and fuels), while core inflation remains elevated at above 4%YoY, showing no signs of a decline.
Friday 14 Nov								
✪✪✪	--	Ukraine	Industrial Production (Oct)	%YoY	-8.0	-6.8	-4.5	Last month, Ukraine drastically cut its steel production on the back of a sharp drop in steel prices, which may result in a more pessimistic result than in Sep (steel industry accounts for 26.2% of total industrial production in Jan-Sep). Ukraine's recession is on the horizon, in our view. The trade balance is also likely to drop taking into account that import adjustments are coming while exports are likely to drop (ferrous accounts for 35% of exports).
✪✪			Trade Balance (Sep)	USD bn	-1.8	n/a	-1.44	
✪✪✪	08.00	Hungary	GDP report, preliminary (Q3)	%YoY	0.9	n/a	2.0	GDP growth likely slowed sharply; to 0.9%YoY in Q3 on our estimates (from 2.0%YoY in Q2), driven by a collapse in industrial activity – the only growth driver so far. With other sectors of the economy (retail, construction) still in recession, the now-official recession in industry (IP trend is now the weakest on record, at -2.1%YoY, 4mmed) suggests a looming outright recession in the economy. Recall that last week we revised our 2009 GDP forecast down to a *negative -0.7%* vs. +1.5% expected this year.
✪✪	08.00	Slovakia	HICP inflation (Oct)	%YoY	4.3	n/a	4.5	HICP inflation could have eased a little in October, driven by favourable base effects and a decline in global commodity prices. The short-term trends suggest an increase to above 5% in the near term. Separately, GDP growth likely moderated in Q3, probably slowing to 5.8%YoY (from 7.6% in Q2).
✪✪			GDP report, preliminary (Q3)	%YoY	5.8	n/a	7.6	
✪✪✪	12.00	Israel	CPI inflation (Sep)	%YoY	5.5%	5.6%	5.5%	We expect flat (0% MoM) CPI inflation for September. As inflation pressures have eased and expectations have improved, the BoI has changed its stance to fully support the deteriorating growth outlook.

* All times given are UK times. †Bloomberg consensus, as of Thursday, 12.00 UK time.

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Everything you've ever wanted to know about the world*

*(*and were not afraid to ask)*

*In turbulent times investors re-discover the 'old school' of analysing country risk. In this note we present a (subjective) ranking for all major world economies and regions that we cover and nearly 5000 economic/risk indicators to digest.***

***This is an excerpt from the note originally published on November 4. Link to the full note – with full set of charts and tables – is here.*

Turbulent times = the need for 'old school' risk analysis

In turbulent times investors re-discover the 'old-school' ways of analysing country risk. This time is no different. Over the past few weeks we have received several data requests from clients for key risk indicators for all major world economies.

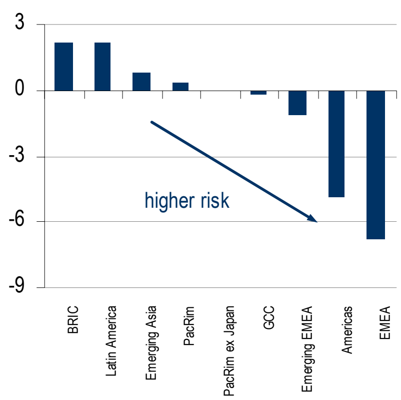
We have crunched over 5000 economic indicators ...

In this note we address all these requests in one go, presenting 62 indicators for each of the 60 world economies that we cover, as well as global and regional aggregates for all these indicators – overall nearly 5000 data points to digest.

... and constructed risk ranking for the world

We have also constructed a (subjective) risk ranking for all major world economies and regions. Our ranking is based on seven indicators; (1) current account financing gap, (2) FX reserves/short-term external debt ratio, (3) exports-to-GDP ratio, (4) private credit-to-GDP ratio, (5) private credit growth, (6) loans-to-deposits ratio, and (7) banks capital-to-assets ratio.

Chart 4: Risk ranking by regions



Source: Merrill Lynch.
*Deviation of the region's aggregate risk ranking from median score (pts).

EMEA - the most vulnerable, BRIC - the safest

According to our risk ranking, the most vulnerable regions in the world are EMEA, Americas and Emerging EMEA, while BRIC, Latin America and Emerging Asia emerge as the safest (Chart 1). The world's ten most vulnerable economies are: Australia, Switzerland, Korea, Romania, Hungary, Sweden, Bulgaria, Euro area, UK and US (Table 1). The world's ten least vulnerable economies are Nigeria, Mexico, Philipinnes, Colombia, Egypt, Oman, Indonesia, Peru, China and Russia.

While we believe that our country risk ranking produces plausible results, as any ranking of that type, it is sensitive to the selection of indicators. For that reason inside this report we present nearly 5000 supplementary indicators.

Table 1: Country risk ranking

Top-10 (highest risk)	Bottom-10 (lowest risk)
Australia	Nigeria
Switzerland	Mexico
Korea	Philippines
Romania	Colombia
Hungary	Egypt
Sweden	Oman
Bulgaria	Indonesia
Euro area	Peru
UK	China
US	Russia

Source: Merrill Lynch.

Executive summary

- According to our risk ranking, the most vulnerable regions are EMEA, Americas and Emerging EMEA, exhibiting worse balance of payments positions, stretched external debt service ratios and overleveraged financial systems. By contrast, BRIC, Latin America, and Emerging Asia emerge as the safest (Table 3).

- Noteworthy, many of the economies that top our risk ranking have been identified by the NBER as those that have experienced "capital flow bonanzas" in the past five years (see: the recent NBER research; *Capital flow bonanzas – an encompassing view of the past and present, September 2008*) and hence exhibit higher likelihood of economic crisis (Table 2).

- While we believe that our country risk ranking produces plausible results (Table 4, p.3), one need to be aware that, as any ranking of that type, it is highly sensitive to the selection of indicators employed. For example, developed countries can probably sustain higher external vulnerability indicators than emerging markets; some Euro area country statistics are possibly misleading given there is a monetary union. For that reason in the remaining part of this report (pages 4-18) we present 62 indicators for each of the 60 world economies that we cover, as well as global and regional aggregates for all these indicators – overall nearly 5000 data points to digest. We present five sets of indicators:

- *Major economic indicators and forecasts,* that provide a general macro picture for all countries and regions (pages 4 and 11 in the original note),

- *Selected external vulnerability indicators,* that assess each country's external balance sheet and liquidity position (pages 5 and 12),

- *External debt statistics,* that provide a detailed breakdown of each country's external debt stock (pages 6-7 and 13-14),

- *Local and international banking statistics,* that summarize the level of structural development and latest trends in local banking sector as well as present each country's position vs. global banking system (p.8-9 and 15-16),

- *Selected market indicators,* that give a snapshot of the credit, rates, FX and equity markets (pages 10 and 17).

Table 2: "Capital flow bonanzas"*

Country	Year
Australia	2007
France	2005-2007
Greece	2006-2007
Portugal	2005
Spain	2004-2007
United Kingdom	2005-2007
United States	2002-2007
Hungary	2003-2004
Romania	2004-2007
South Africa	2005-2007
Turkey	2004-2007

Source: NBER. *"Capital flow bonanzas: an encompassing view of the past and present"*, September 2008 (WP 14321).

Table 3: Selected risk metrics*

as of 10/31/2008	CAB + net FDI, % of GDP**	FX reserves / short-term external debt, ratio	Exports, % of GDP	Private credit, % of GDP	Private credit, %YoY (3mma)	Loans / deposits, ratio (x100)	Bank capital to assets, %
Developed Markets	-1.1	0.4	25.4	135.4	6.6	209.3	7.5
Emerging Markets	6.2	5.8	36.6	66.2	25.0	87.3	8.4
Emerging EMEA	4.3	3.3	39.8	47.2	38.6	104.4	10.6
Emerging Asia	8.6	7.9	39.4	89.3	18.0	77.8	6.3
Latin America	2.1	3.3	24.3	28.5	25.5	89.3	10.9
Americas	-0.8	0.9	17.0	136.5	11.5	273.7	10.1
EMEA	0.0	1.2	35.3	85.7	18.5	111.8	7.7
PacRim	7.0	6.2	38.6	94.2	13.7	82.5	5.9
PacRim ex Japan	8.2	7.3	44.3	94.9	17.5	81.0	6.4
BRIC	8.0	8.0	28.9	78.6	24.7	82.4	7.4
GCC	24.4	1.3	53.0	48.9	36.8	87.3	9.8

Source: IMF, EcoWin, Bloomberg, Merrill Lynch. *For details see Tables 4, 7, 8, and 11. Country data aggregated using weights and classification presented in Table 20. Highlighted are bottom-3 performers. **CAB: current account balance.

Table 4: Country risk ranking*

Risk Ranking	Country	CAB + net FDI, % of GDP (rank*)	FX reserves / short-term external debt (rank*)	Exports, % of GDP (rank*)	Private credit, % of GDP (rank*)	Private credit, %YoY 3mma (rank*)	Loans / deposits, ratio x100 (rank*)	Bank capital to assets, % (rank*)
1	Australia	4	8	36	3	41	5	2
2	Switzerland	27	4	21	4	42	2	4
3	Korea	11	20	15	15	27	7	21
4	Romania	1	14	29	35	5	11	13
5	Hungary	7	10	9	24	33	8	20
6	Sweden	25	6	24	20	34	3	1
7	Bulgaria	16	25	10	20	6	15	19
8	Euro area	10	2	41	13	36	13	9
9	UK	2	1	37	6	38	18	22
10	US	8	3	44	2	38	1	28
11	Ukraine	14	28	20	25	2	4	36
12	Chile	30	13	18	17	25	12	14
13	Czech Republic	15	22	6	28	21	32	10
14	Norway	36	9	25	8	29	n.a.	5
15	South Africa	2	26	27	16	23	19	17
16	Poland	9	30	22	35	15	14	15
17	Bahrain	39	5	4	23	8	38	n.a.
18	Singapore	41	16	1	12	18	35	23
19	Canada	29	7	28	5	37	36	7
20	Hong Kong	35	19	2	1	20	43	33
21	Qatar	44	12	17	30	3	22	n.a.
22	Slovakia	6	23	5	34	16	41	29
23	UAE	40	15	11	19	9	21	35
24	Israel	21	39	19	10	35	27	11
25	Malaysia	38	37	3	11	32	34	15
26	Turkey	5	18	34	39	12	31	31
27	Thailand	28	43	7	18	26	25	24
28	Kuwait	43	11	12	22	19	29	33
29	Saudi Arabia	42	17	16	31	10	29	26
30	India	13	36	39	26	17	33	12
31	Japan	20	27	40	14	44	26	3
32	Kazakhstan	31	21	14	27	40	6	40
33	Taiwan	26	42	8	7	43	28	n.a.
34	Brazil	12	31	43	35	14	19	24
35	Russia	22	40	35	32	4	9	38
36	China	37	44	26	9	28	37	8
37	Peru	24	32	32	44	13	23	18
38	Indonesia	18	24	30	41	11	40	27
39	Oman	33	38	13	40	7	24	37
40	Egypt	32	29	31	29	30	42	6
41	Colombia	19	35	42	33	22	17	30
42	Philippines	23	33	23	38	24	39	31
43	Mexico	17	34	33	42	31	15	39
44	Nigeria	34	41	38	43	1	9	41

Source: Merrill Lynch. *Ranked from the most vulnerable to the least vulnerable. The ranking is based on a non-weighted average of ranks for the risk metrics presented. Top-10 (highest risk) and bottom-10 (lowest risk) performers highlighted.

Table 5: Euro area - country risk sub-ranking*

Risk Ranking	Country	CAB + net FDI, % of GDP (rank*)	FX reserves / short-term external debt, ratio (rank*)	Exports, % of GDP (rank*)	Private credit, % of GDP (rank*)	Private credit, %YoY 3mma (rank*)	Loans / deposits, ratio x100 (rank*)	Bank capital to assets, % (rank*)
1	Ireland	6	1	3	1	3	7	3
2	Netherlands	11	3	2	4	7	3	1
3	Portugal	3	5	8	3	3	3	6
4	Greece	1	2	11	8	1	11	6
5	Spain	2	6	10	2	6	6	9
6	France	5	7	9	6	5	5	5
7	Belgium	7	4	1	11	11	10	2
8	Italy	4	9	7	9	9	2	10
9	Finland	10	11	6	9	2	1	11
10	Germany	9	8	5	6	10	9	4
11	Austria	8	10	4	5	8	8	8

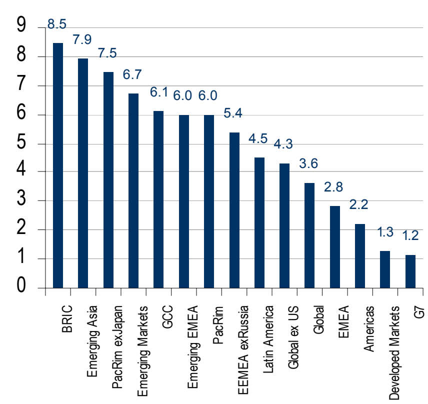
Source: Merrill Lynch. *Ranked from the most vulnerable to the least vulnerable. The sub-ranking presents ranking of major Euro area economies. Top-3 (highest risk) and bottom-3 (lowest risk) performers highlighted.

Table 6: Major Economic Indicators and Forecasts

as of 10/31/2008	Real GDP growth, %* 2008 MLe	CPI inflation, %* 2008 MLe	ST interest rate, % (eop)** 2008 MLe	Real interest rate, % (latest) † Latest	Current account balance (%/GDP) 2008 MLe	Fiscal balance (%/GDP) 2008 MLe	Public debt (%/GDP) Latest	GDP per capita, USD 2008 MLe	Nominal GDP, USD billion 2008 IMFe	Population, million Latest
Global	3.6	5.6	4.61	-1.0	0.8	-1.2	47.0	29,605	58,846	5,056
Global ex US	4.3	6.0	5.70	-0.2	2.4	-0.7	50.2	24,366	44,512	4,752
G7	1.2	3.4	1.73	-2.0	-1.6	-2.9	66.0	45,147	32,726	730
Developed Markets	1.3	3.5	2.00	-1.7	-1.4	-2.4	62.1	45,684	40,456	897
Emerging Markets	6.7	8.3	8.05	-0.1	3.6	0.4	27.1	8,466	18,391	4,159
Emerging EMEA	6.0	11.5	9.15	-2.9	4.2	3.4	24.6	14,988	6,251	682
EEMEA exRussia	5.4	10.4	8.40	-2.6	3.0	2.7	32.1	15,983	4,472	540
Emerging Asia	7.9	6.8	6.00	-0.1	4.7	-1.3	28.2	4,954	7,993	2,997
Latin America	4.5	7.8	12.25	3.9	-0.3	0.7	27.7	9,025	4,147	480
Americas	2.2	4.9	3.84	-1.7	-3.3	-1.9	33.8	37,643	20,045	818
EMEA	2.8	6.2	5.37	-0.9	1.4	-0.4	48.3	35,782	24,478	1,080
PacRim	6.0	5.5	4.62	-0.5	4.3	-1.4	59.2	14,824	14,324	3,158
PacRim exJapan	7.5	6.6	5.79	-0.1	4.5	-1.1	27.3	8,289	9,479	3,030
BRIC	8.5	7.9	7.96	0.8	4.6	-0.4	26.6	4,840	8,903	2,847
GCC	6.1	10.6	1.22	-8.5	31.3	19.6	16.1	36,597	1,151	38

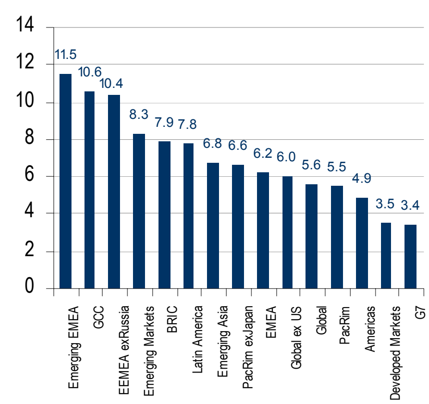
Source: Merrill Lynch, EcoWin, IMF. *Period averages. **Central bank target rate forecast (end-of-period). †Current policy rate adjusted for trailing CPI inflation. NB. Country data aggregated using weights and classification presented in Table 20.

Chart 5: Real GDP growth (%YoY)*



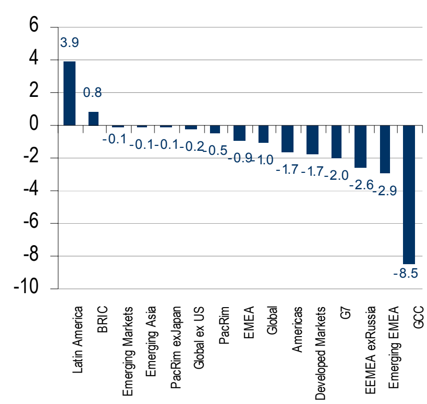
Source: Merrill Lynch. *2008 forecast (period average).

Chart 6: CPI inflation (%YoY)*



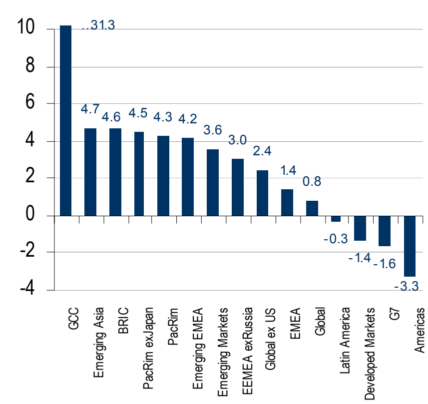
Source: Merrill Lynch. *2008 forecast (period average).

Chart 7: Real interest rates (%p.a.)*



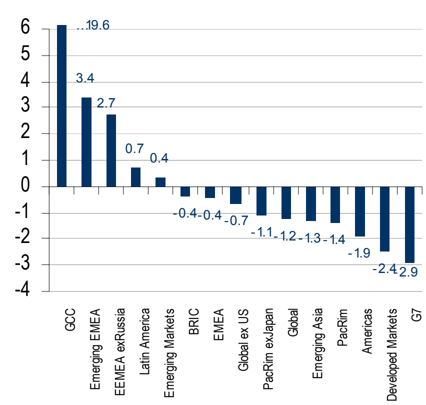
Source: Merrill Lynch, Bloomberg. *Latest, short-term, CPI-adjusted rate.

Chart 8: Current account balance (%/GDP)*



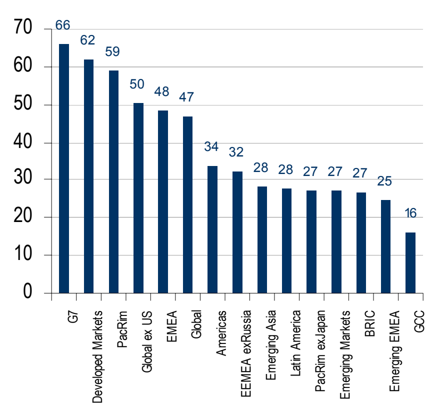
Source: Merrill Lynch. *2008 forecast (period average).

Chart 9: Fiscal balance (%/GDP)*



Source: Merrill Lynch. *2008 forecast (period average).

Chart 10: Public debt (%/GDP)*



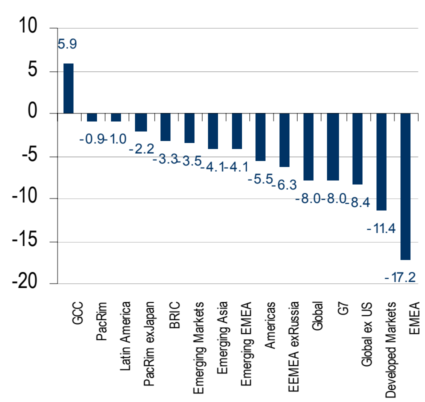
Source: Merrill Lynch, official sources. *Latest reading.

Table 7: Selected External Vulnerability Indicators*

as of 10/31/2008	Net external position, %/GDP*	External debt / exports, ratio***	FX reserves, USD billion	FX reserves, YoY change, USD bn	FX reserves / short-term external debt, ratio†	Current account balance, % of GDP (4-quarter sum)	CAB + net FDI, % of GDP (4-quarter sum)
	Latest	Latest	Latest	Latest	Latest	Latest	Latest
Global	-8.0	421	6,488	1,056	2.7	0.9	2.0
Global ex US	-8.4	324	6,426	1,051	3.5	2.7	3.4
G7	-8.0	682	1,244	69	0.4	-1.6	-1.4
Developed Markets	-11.4	684	1,778	83	0.4	-1.5	-1.1
Emerging Markets	-3.5	77	4,710	973	5.8	3.9	6.2
Emerging EMEA	-4.1	105	1,214	275	3.3	1.6	4.3
EEMEA exRussia	-6.3	99	646	114	2.2	1.4	4.6
Emerging Asia	-4.1	53	3,028	596	7.9	6.4	8.6
Latin America	-1.0	102	468	101	3.3	0.3	2.1
Americas	-5.5	551	572	108	0.9	-3.4	-0.8
EMEA	-17.2	594	1,555	283	1.2	0.5	0.0
PacRim	-0.9	107	4,360	665	6.2	5.6	7.0
PacRim exJapan	-2.2	72	3,384	604	7.3	6.1	8.2
BRIC	-3.3	67	2,956	731	8.0	5.4	8.0
GCC	5.9	52	134	37	1.3	25.0	24.4

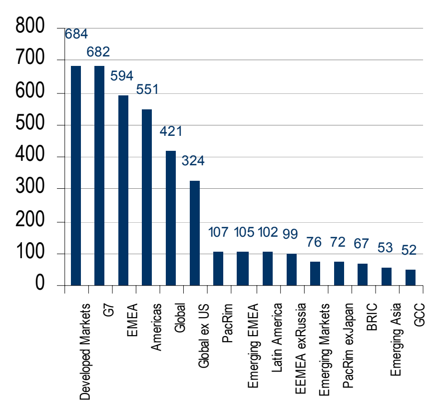
Source: BIS, Joint IMF-WB-BIS External Debt Hub, EcoWin, Merrill Lynch. *Countries net external position vs BIS-reporting banks. **IMF-WB-BIS external debt / exports of goods and services. †National FX reserves / BIS short-term external debt.

Chart 11: Net external position (%/GDP)*



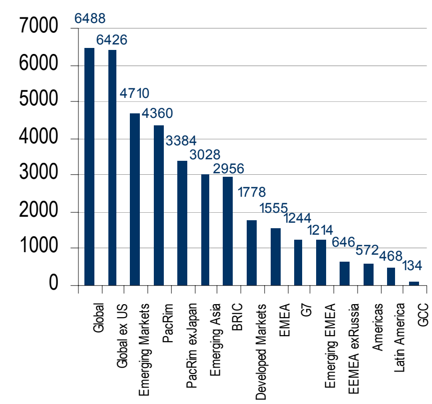
Source: BIS. * Net external position vs BIS reporting banks. 2008 Q2.

Chart 12: External debt / exports (ratio, x100)*



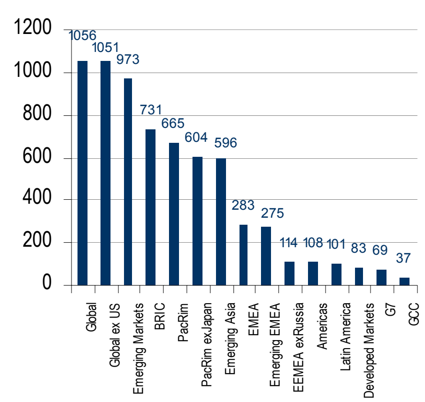
Source: BIS-IMF-OECD-WB, Merrill Lynch, official sources. *2008 Q2.

Chart 13: Official FX reserves (USD billion)*



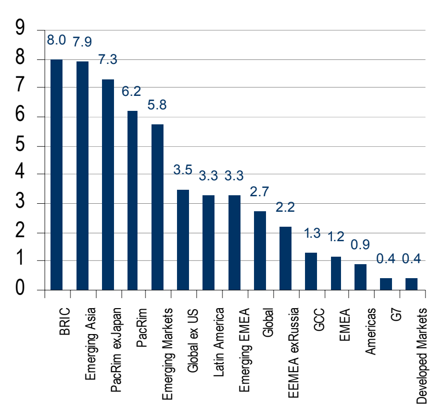
Source: IMF, EcoWin, Bloomberg, Merrill Lynch. *National, ex. gold.

Chart 14: FX reserves change (YoY, USD bn)*



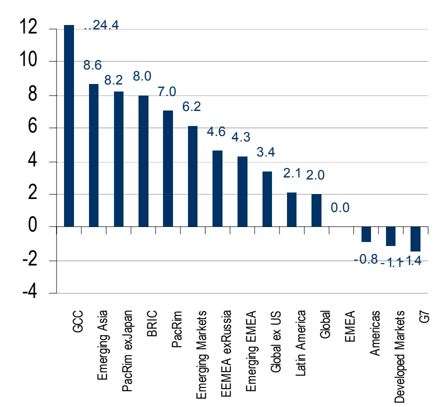
Source: IMF, EcoWin, Bloomberg, Merrill Lynch. *National, ex. gold.

Chart 15: FX reserves / short-term ext. debt*



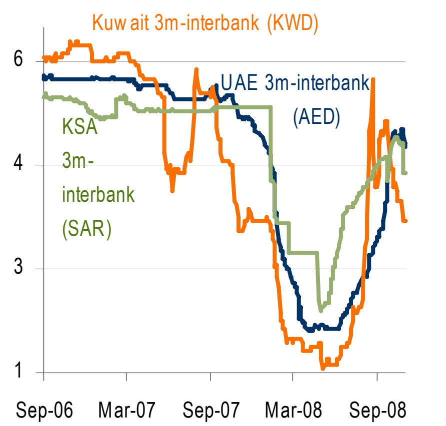
Source: BIS, IMF, EcoWin, Bloomberg, Merrill Lynch. *2008 Q2.

Chart 16: Current account + net FDI (%/GDP)*



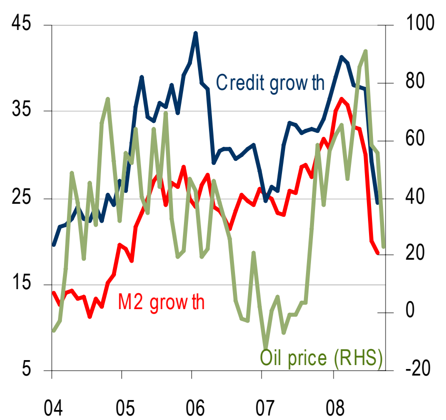
Source: Merrill Lynch, EcoWin, official sources.

Chart 17: GCC - 3m interbank rates (%)



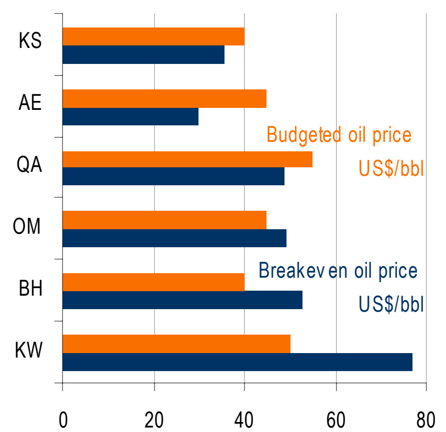
Source: Bloomberg

Chart 18: GCC - Private credit, M2, oil price, % yoy



Source: National official data, EcoWin, Merrill Lynch estimates

Chart 19: GCC: breakeven budget* oil prices



Source: Merrill Lynch estimates, national official data *Based on official 2008 budget targets. **Kuwait has announced one off budget transfer of c.US$20bn to capitalise social security system

GCC: fighting back

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GCC governments are willing to limit the spillover effects of the global turmoil on their economies. Despite their large twin surpluses, this is still a challenging task as growth will slow down and their surpluses will erode. Considering the lower oil prices, deepened credit crunch and deleveraging, we have revisited the FAQs and listed the recent policy actions.

How do lower oil prices affect macro?

The oil windfall over the last five years has caused a growth spurt in the region. As macro is largely driven by oil for GCC economies, lower oil prices would shave off surpluses and growth would slow down in the period ahead despite governments' counter-cyclical monetary and fiscal policies. We believe that the effect is not symmetric and falling oil prices have less impact than higher prices. On assessing the impact of lower oil prices we focus on: a) monetary policy, b) fiscal policy, and c) GDP growth.

Monetary conditions tighter despite rate cuts

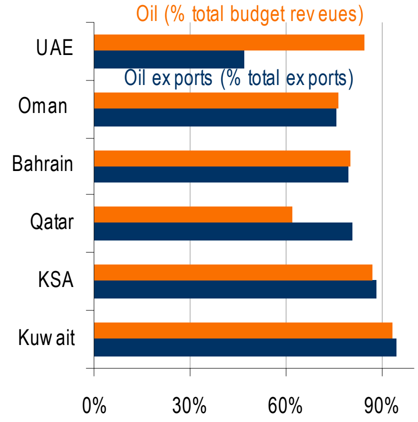
With higher oil prices and cheaper and abundant local and US dollar funding, domestic credit expansion constantly gained pace until H208, boosting domestic demand. This cycle is now over as the unfolding global recession is sending commodity prices lower. Central banks in the region are now trying to support local liquidity by deposit injections and rate cuts (not all countries followed Fed cuts -see Policy response to credit crunch section for country specific measures) but the outflow in portfolio investments and non-resident's deposits dried up USD liquidity significantly. This is critical as the region's capital intensive infrastructure spending (some 70% of GCC's US$2.5tn project pipeline) is highly leveraged to project financing and/or dollar funding from international debt market.

Despite recent monetary easing, interbank funding rates are still markedly above the policy rates in the region, which point to the ongoing pressures (Chart 17). Falling oil prices (and to a much lesser extent stronger currencies through US$ pegs) also constrain the overall available pool of liquidity in the region. After all, with the lack of effective monetary policy tools, the oil windfall has been the ultimate source of liquidity. While deposit and credit growth reached c.40% in H108, deposit and portfolio investment outflows from the system increased the banking sector's funding requirement and left little room for further credit expansion. For now, further credit growth is almost fully dependent on governments' deposit injections to the system. We believe that a further deceleration in deposit and loan growth is inevitable in the short-term (Chart 18) and single digit credit growth is likely in 2009. This is likely to be a drag on non-oil sector growth. Despite sizeable excess surpluses, governments in the region are likely to try to improve liquidity condition in the market and stabilise financial markets rather than stepping in and flushing the system with cash to sustain the high credit growth of H108.

Time to spend fiscal surpluses

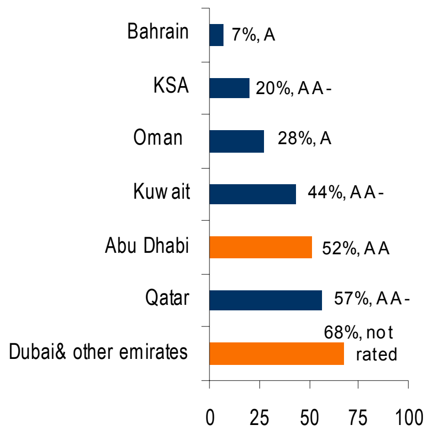
As GCC countries have accumulated sizeable surpluses over the last five years, they have some room to weather the increasing headwinds by digging their deep pockets of savings. Considering the expenditure plans and revenue forecasts in

Chart 21: Oil as % of exports & budget (% total)



Source: IMF, national official data, EcoWin, Merrill Lynch estimates

Chart 20: GCC - gross external debt/GDP and sovereign ratings



Source: IIF, Moody's, Fitch Ratings, IMF, Merrill Lynch estimates

the latest 2008-09 budgets for GCC countries, we estimate the average oil prices that will break-even the budget expenditures is at US$50/bbl (Chart 19). UAE has the lowest budget break-even oil price, US$30/bbl, followed by Saudi Arabia (US$36/bbl), Qatar (US$49/bbl), Oman (US$50/bbl) and Bahrain (US$53/bbl). The highest break-even is in Kuwait (US$77/bbl) but this is mainly due to a one-off budget transfer of c.US$20bn to capitalise the social security system in FY08/09. Without the one-off transfer, Kuwait's estimated break-even budget oil price would be US$52/bbl.

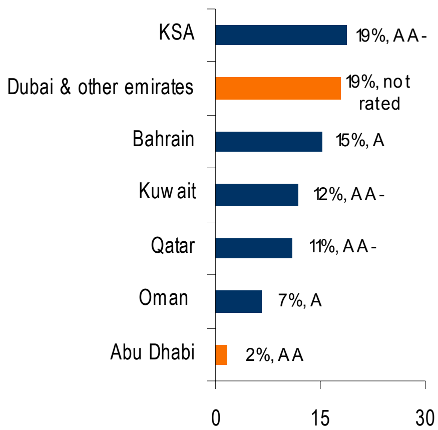
While these break-even oil prices seem manageable for now, they are likely to increase going forward. Firstly, while falling commodity prices will reduce the fiscal burden (subsidies, wage hikes) on governments, revenues will also fall as export demand and the price of oil drop. Secondly, GCC development agendas and attached political risks mean that it likely will be difficult to curb spending drastically. Still, this fiscal spending will not be too aggressive in our view. We think that GCC countries have learned their lessons from the excessive spending in the past. Also, governments' fiscal commitments likely will be another factor that will determine the rigidity in spending. Kuwait for example has committed less to investment projects and has more room to manoeuvre current and transfer spending, while Qatar on the other hand maintains a high level of investment spending (investment to GDP ratio of over 40%) utilising both domestic and external funding (gross external debt is 57% of GDP).

As we expect GCC countries to use their surpluses to smooth the effects of global recession and lower oil prices, the fiscal policy is likely to continue being accommodative. Kuwait has already announced that it will not cut spending even if oil falls below US$50/bbl and the Saudi King has recently promised US$2.8bn in interest-free loans to low-income families. Such moves clearly indicate the sensitivity of regional leaders to any potential for civic unrest arising from the current crisis and suggest they are willing to reach into their deep pockets to appease public opinion.

In the past, GCC governments faced sharp deterioration in their fiscal balances following the boom-bust cycles of oil prices. After the first oil boom in 1970s, Saudi Arabia amassed a high domestic debt burden that reached over 100% of GDP by the end of the 1990s (but has since been reduced drastically to 19% of GDP with the help of high oil prices). Saudis' spending almost doubled every year in the 1970s - in 1973 spending rose by 83% and was growing as high as 132% yoy in 1975 - compared to the measured fiscal spending of this cycle (increasing 10% yoy in 2003 and 13.5% in 2006, or 12.6% in 2007).

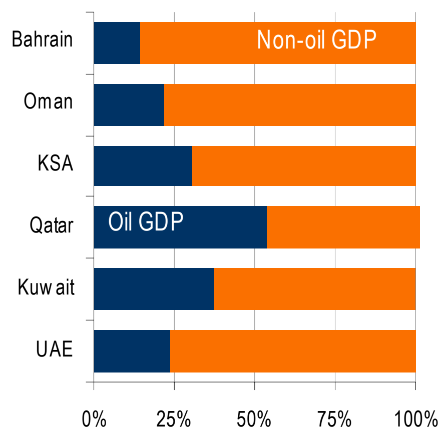
Overall, GCC countries have remained relatively prudent in their budgets and have saved c.70% of their windfall over the last five years for rainy days. As such, taking an estimated average oil price of US$60/bbl for 2009, we still expect the aggregate GCC budget balance to remain in the double digits (11% of GDP), albeit reduced, with Kuwait (18% of GDP), UAE (14% of GDP) and Saudi Arabia (9% of GDP) still with sizeable surpluses.

Chart 22: GCC - total general government debt/GDP (%) and sovereign ratings



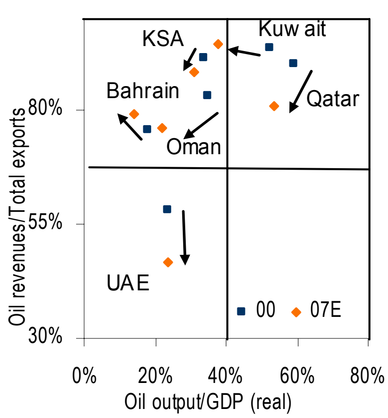
Source: IIF, Moody's, Fitch Ratings, IMF, Merrill Lynch estimates

Chart 23: GCC - Oil & non-oil sector as % GDP (2007)



Source: IMF, national official data, EcoWin, Merrill Lynch estimates

Chart 24: GCC – diversification



Source: IMF, national official data, EcoWin, Merrill Lynch estimates

GDP growth to lose steam

In assessing the impact of lower oil prices on GDP growth we adopted a simple framework. Besides the lower trivial hydrocarbon production link, we also assumed that lower oil price non-oil growth link will be constructed via the credit channel and wealth effects.

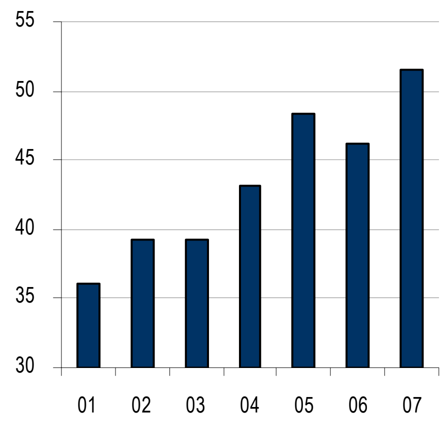
Lower oil production: Oil exporters' response to sharply falling oil prices under OPEC is a trivial one: lower production. Not surprisingly, following c.60% fall in oil prices from their July peak, OPEC announced production cut of 1.5mn b/d on October 24 to stabilise the market. Accordingly, Saudi Arabia, Kuwait and UAE (read as Abu Dhabi) will each have to draw down production by 466,000, 132,000 and 134,000 b/d (c.4% of current levels), respectively. As global recession scenarios take the centre, further production cuts in the future would not be surprising. This would bring down oil output and the headline GDP depending on the share of the countries' hydrocarbon sectors in respective GDP (Chart 23).

The largest hydrocarbon sector with respect to the size of the economy is in Qatar (54% of GDP), followed by Kuwait (38%) and Saudi Arabia (31%). The least oil dependent country is Bahrain, which relies heavily on the financial sector.

It is a well-known fact that Qatar's large hydrocarbon sector is mainly composed of natural gas, which is subject to fixed long term contracts unlike the oil market, and the country has created a niche via investing heavily in LNG. Hence both the more rigid price in gas and aggressively increasing LNG production leaves Qatar somewhat more insulated. Hence, Kuwait, Saudi Arabia and UAE stand out as more dependent on crude oil. Also note that Abu Dhabi accounts for almost 95% of UAE's hydrocarbon sector while Dubai lives on a large non-oil economy. All in, our estimates suggest that every 100,000 b/d cut in oil production reduces headline GDP growth by c.0.3% for Saudi Arabia, c1.5% for Kuwait and c.1% for UAE.

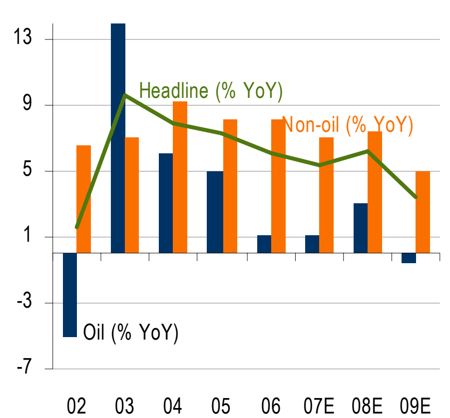
Non-oil growth: Despite some degree of diversification (Chart 24), hydrocarbon sector still remains the core of the GCC economies. However, it is the non-oil sectors that have been keeping growth high. The non-oil sector posted an average GDP growth of 8.0% from 2004-07, accounting for 80% of headline GDP growth. The main drivers of non-oil growth in this period were real estate, construction and finance industry, which totally generated almost half of non-oil growth. These sectors face some serious headwinds going forward in our view. As we have discussed above, lower oil prices are likely to impose a contractionary effect on money supply and credit growth. Hence, credit likely will be less available and the appetite for consumption and investment should decrease with the lower oil prices and clouded global backdrop. With the end of cheap and abundant liquidity, some degree of capital reallocation also seems inevitable and that would cause a crowding out effect for private sector and households. An indirect link would be the negative wealth effects because of the lower prices in Gulf financial markets, which are highly correlated with oil prices. We pencilled in 7.4% and 5.0% growth for non-oil sector in 2008 and 2009 respectively.

Chart 26: GCC – bank loans to private sector (as % GDP



Source: National official data, EcoWin, Merrill Lynch estimates

Chart 25: GCC – oil vs. non-oil growth (% yoy)



Source: IMF, national official data, EcoWin, Merrill Lynch estimates

A global recession scenario

The global economy is heading into a recession. The collapsing oil prices, accelerated deleveraging and the liquidity crunch are resulting in hard times emerging markets. GCC economies are certainly not immune and we believe that their large surpluses will shrink and growth should fall towards the lower single digits next year.

Back in October we revised our GCC growth expectations for 2009 (GCC Quarterly: Big cushions help soft landing) to 4.5% yoy (from 6.2% yoy previously) from the 2003-07 average of 7%. However, October proved to be one of the most disastrous months ever for EM. With this turmoil, not only the global growth outlook dimmed but also oil prices have collapsed by almost 40% mom, putting more OPEC cuts on the table. Hence, mainly due to incorporating lower oil output and an average oil price at 60$ per barrel, we mark down our GDP forecasts even lower. We now see GCC GDP growth at 3.5% in 2009 compared to 4.5% previously. We expect the GCC CA account surplus to come down to 15% of GDP in 2009 (down from 31% of GDP in 2008). The budget surplus is likely to fall to 11% of GDP next year from 21% of GDP in 2008.

Overall, GCC countries have strong cushions built up in recent years to weather the unfolding storm better than many other regions. Still, country performances should vary regarding their openness, dependence on oil and their ability to run counter cyclical policies.

Saudi Arabia is the least indebted country in the region after Bahrain. It has the region's second largest banking sector, with a large deposit base in an under-penetrated market. Despite the global turmoil, the large and closed domestic market is a source of stable growth. We expect 2.9% growth for Saudi in 2009 largely because as the swing producer in OPEC, they will carry the largest burden of production cuts that are likely to come in 2009.

Qatar's gas sector ambitions are likely to be scaled down in a world in recession. We believe that Qatar's expensive and capital intensive growth strategy will also take a hit. Still, we see an impressive GDP growth of 9.5% yoy in 2009 thanks to surging LNG production but the budget surplus is likely to come down to 7% of GDP from 13% in 2008.

Kuwait is the most oil dependent economy of the GCC countries and the growth rate has been one of the lowest due to lacklustre commitment to diversification or domestic investment. The country has committed little in terms of domestic investments or mega projects and is sitting on a large pile of cash that it will use to prop up its domestic economy. We see a GDP growth of 2.8% as in the Saudi case, with lower oil production shaving off GDP growth.

As the tourism and trading hub of the region, the UAE and more specifically, Dubai, likely will struggle most. While the "if we build they will come" approach worked during the good times, fall in global demand and higher funding costs will turn into a costly speed bump for the emirate's real estate sector. As such we see the non-oil sector slowing sharply to a still respectable 5.0% yoy in 2009 but much lower than the 11% yoy average recorded between 2002-07. For headline GDP growth we see a slowdown to 3.5% in 2009 from 6.8% in 2008.

Small, open countries and/or those without big surpluses such as Bahrain and Oman likely will have hard times. Real estate, construction and finance accounts for 50% of non-oil growth in Bahrain and the outlook for all these sectors are dimmed lately. Similarly, with Oman heavily dependent on services, especially tourism, and already having only modest surpluses, it may face strong headwinds. We expect 3.3% and 3.4% growth in 2009 respectively for Oman and Bahrain.

Is real estate market next shoe to drop?

We think yes. The weakening global backdrop first brought down commodity prices. Then, major value destruction was experienced in EM assets. GCC stock markets are reliving the falls experienced in the regional stock crash back in 2005-06. With less liquidity and lower asset prices attention has turned to inflated real estate prices in the GCC and in particular Dubai. Little hard data is available on the sector except anecdotal evidence that demand has dried up and prices are coming down in the secondary market, which should mean that prices in the primary market will follow. With every other page in Gulf newspapers an advert for new supply or developments, it is unrealistic not to expect a correction.

Essentially, the real estate story was largely a highly-leveraged liquidity story (flipping even the off-plan developments with down payments as little as 10%). The fact that the Dubai government and leading companies moved to introduce new measures in August such as to lessen the practice of 'flipping' by setting restrictions on re-sale highlighted the increasingly speculative nature of the real estate market. With cheap and abundant liquidity, speculative demand inflated prices in the short-term. As the speculators make a fast exit, this has to be corrected now regardless of the medium-term demand/supply conditions.

Table 8: Total corporates' FX debt repayments

(US$mn)	2008 (Oct-Dec)	2009
Bahrain	350	3,503
Kuwait	200	4,440
Oman	-	495
Qatar	710	3,454
Saudi Arabia	49	2,940
United Arab Emirates	13,968	20,132
Total	15,277	34,964

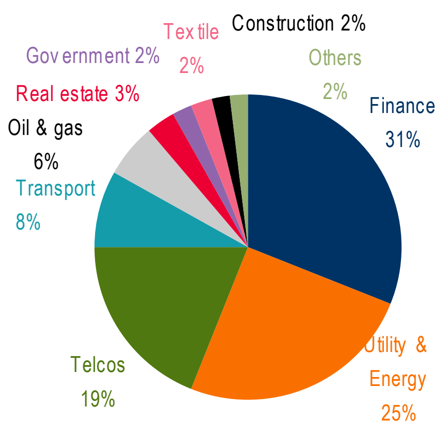
Source: Merrill Lynch, Bondware, Loanware

From a macro perspective, as economic activity is slowing down and investment spending looks set to be scaled down, demographic trends are likely to be less supportive of real estate demand in the region. Government measures such as banning villa sharing in Dubai or opening Kuwaiti real estate to the rest of the GCC may smooth the fall somewhat but are unlikely to reverse the overall trend.

Who is worst hit by the credit crunch?

With the most open, most levered economy that invested most in real estate in the region, but lacking the hydrocarbon revenues and excess savings, Dubai sticks out as the most risky story in the region.

Chart 27: GCC - 2009 Redemptions by industry type



Source: Merrill Lynch, Bondware, Loanware

Public external debt levels remain low within the GCC but we think this is misleading since most of the external debt held by private companies is actually quasi-sovereign. Overall, UAE sticks out as the most open in terms of its status as a regional financial, tourism and trade centre, and the highest level of external debt estimated to reach 67% of GDP in end-08. Qatar follows in the external indebtedness ranking with an estimated 54% debt to GDP but this largely relates to its hydrocarbon (natural gas, LNG) infrastructure investment rather than a more risky bet on real estate demand.

Our credit team estimates overall foreign currency redemptions of GCC corporates will amount to US$15bn in Q408 and US$35bn in 2009. Again, the UAE accounts for most of the pile, 91% and 50% of the total GCC redemptions in 2008 and 2009, respectively, with Kuwait and Saudi liable for most of the rest. State-owned companies and mainly financials, telcos, and energy sectors have the largest external liabilities. As Dubai is responsible for over two thirds of total redemptions to come this year, markets are assigning higher risk premium on Dubai. This is evident in the widening spreads between Dubai and Abu Dhabi 5Y CDS spreads (~365bp).

In a previous note (UAE: United they stand) we discussed our base scenario that Abu Dhabi will step in to bail out Dubai in a worst case scenario, but on a selective basis. In this sense, recent actions by the President of Abu Dhabi (and ruler of UAE) in standing by the UAE's banking sector by guaranteeing all deposits and injecting AED70bn (US$33bn) into the system should be taken as a show of that unity. As contingent liabilities will amount to as much as 20% of GDP, we claimed that punishing only Dubai and ignoring these contingencies on Abu Dhabi (i.e. sharply widening CDS spread between two emirates) was unjustified.

According to BIS data foreign claims for the GCC at end Q108 stood at US$237bn, 60% of which had a maturity up to 1 year and 30% with a maturity over 2 years. At the same time GCC banks accounted for 47% of foreign claims with the overall public sector accounting for 6%. As a share of our forecast 2008 GDP, Bahrain has the highest level of short-term debt to GDP at 136% but this is due to its position as an off-shore banking hub. The UAE follows Bahrain with a short-term debt to GDP ratio of 22%, Qatar 12%, Kuwait 10%, Saudi Arabia 7% and Oman 5%. The UAE stands out as one of the most highly indebted countries in the GCC, accounting for 39% of total GCC foreign claims.

GCC policy response to credit crunch

GCC governments are willing to smooth out the spill-over of the global economic downturn. Mindful of political risks connected to demographics and high youth unemployment, governments are understandably reluctant to abandon their loaded development plans. In that regard, GCC countries also have large savings that will help them to achieve this aim to a certain extent. First, FX reserves held at central banks, which do not include the foreign assets held by sovereign wealth funds, equal over 50% of GCC GDP or roughly US$500bn. Sovereign wealth funds' assets are estimated to give another US$1.5tn to GCC governments' disposal. Secondly, external and fiscal accounts still remain sizeable (MLe. 31% and 21% of GDP respectively for 2008 and 15% and 11% of GDP for 2009).

Kingdom of Saudi Arabia

- King Abdullah promises SAR10bn (US$2.76bn) for interest-free loans to low-income families.
- Government guarantees deposits and provision of liquidity, announces Central Bank to cut lending rates and reserve requirements if necessary. Following the announcement SAMA injects US$2-3bn in deposits into banking system, between US$200-350mn for each bank, banking sector expects more to follow.
- Benchmark lending rate reduced a cumulative 150bps from 5.5% to 4%, but reverse repo rate kept at 2% following the Fed's moves. Reserve requirements lowered from 13% to 10%.
- Finance Minister states that the Kingdom can draw on its 'huge' reserves if necessary to "support the banking sector or any other (sector)".
- SAMA says banks can borrow SAR150bn (US$40bn) if needed but that no bank has tapped this facility according to news reports. No further details available.
- SAMA states that it is having problems managing liquidity and keeping tabs on high inflation in the Kingdom and states that as a result it is more likely to act through repo and reverse repo rates rather than direct injection of cash.

United Arab Emirates (UAE)

- UAE government transfers AED70bn (US$19bn) (representing 8% of total deposits) to the Ministry of Finance to 'inject liquidity into the national banking sector'. Together with September's AED50bn facility (US$13.6bn) this brings the total available amount to AED120bn (US$32.7bn). The cost of the AED50bn emergency facility announced in September is lowered to 150bps above repo for banks borrowing within reserve limits and 300bps above repo for those borrowing outside reserve limits. The Ministry of Finance has so far injected AED25bn (US$6.8bn) of deposits directly into banks, with the 3m interest rate to be calculated based on the US 5y treasury bond rate plus 120bps or 4% (whichever is higher). Terms attached by the Ministry of Finance and the Central Bank include "supporting the capital and lending capacity in the financial system, supporting local economy and supporting development of the banking sector" which underlines their efforts to help loan growth. Banks are also warned that actions to the contrary will be penalized. Further conditions and requirements for capital structure and lending guidelines are to be announced at a later stage.

- Central bank announces that it has started selling dollars to banks at the same day value instead of the usual spot value (which settles in 2 days) to ease the interbank market.

- Government guarantees deposits and savings in national banks and interbank lending. The guarantee is extended to include foreign banks (exc regional banks) with 'significant operations' in the country for 3 years.

- Market stabilisation measures include reducing circuit breaker for Dubai Financial Market from 15% to 10% and restrictions on share buybacks eased. The Dubai International Financial Exchange has introduced dirham trading to attract investors – companies traded in dollars will have option to convert into dirham later in the year.

- Benchmark repo rate cut to 1.50% from 2% in line with Fed, Central Bank states that they will not follow the next move.

- UAE banks and lenders such as Tamweel and Amlak, Emirates NBD, have announced reductions in loan to value ratios.

Qatar

- Central Bank sees no need to adjust its interest rates following the Fed but states that it is willing to provide liquidity if need arises to support the banking sector.

- Market stabilisation measures include announcement by Qatar Investment Authority which is acquiring up to as much as 20% stake in Qatari banks.

Kuwait

- Government announces it is considering buying into Gulf Bank in case shareholders are unable to raise funds while Fitch cuts the bank's rating to D from B/C, placing it on a negative rating watch.

- Government guarantees all deposits as Central Bank intervenes to save Gulf Bank following large trading losses from FX derivatives. According to the bill, any losses will be absorbed by the Kuwaiti Investment Agency.

- Central Bank announces that the priority of the bank has shifted from fighting inflation to “enhance confidence and safety in the banking sector”.
- Central Bank announces that it will halt deposits to any bank if it attempts to sell mortgaged shares for loan and credit facilities to clients and investment firms.
- Local banks and Central Bank agree on a mechanism’ to help investment firms. Banks are to support investment firms and the KIA is to provide those banks with long term deposits. Local investment firms were also given access to funds from state institutions but had argued this alone was inadequate.
- Discount rate reduced by a cumulative 150bps to 4.25% and the repo rate by 150bps to 2% following Fed moves.
- Local banks are instructed to: 1)raise maximum limit for loan to deposit ratio to 85% from 80% 2)increase by 5% the growth rate of credit portfolios for each bank 3)accept real estate as collateral in the calculation of capital adequacy ratios.
- Government injects KWD100mn (US$374mn) in cash into banking system offering one-week and one-month funds and states intention to sell bonds worth KWD50mn.
- Market stabilisation measures include KIA investment in local stock market funds. Local media put the figure at US$1.1bn but we have heard that KIA may be willing to inject US$15bn into domestic stock market and that government had given green light for KIA and other similar government institutions to move deposits into local banks. According to the state news agency, KIA holds 15 out of 35 investment funds in the market.

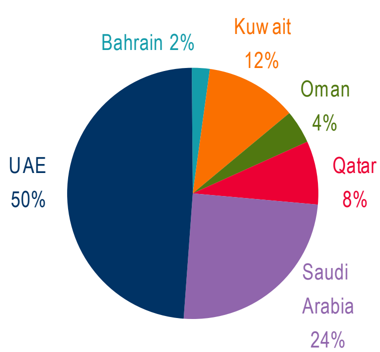
Bahrain

- Central Bank issues statement that the banking system is “sound and strong capitalised”, adding that liquidity flows remain normal.
- Central Bank reduces one-week deposit rate by a cumulative 50bps to 1.50%, the o/n deposit rate by 50bps to 1% and the o/n repo rate 175bps to 3.5% following Fed moves.

Oman

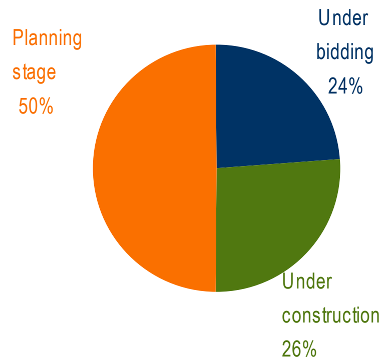
- Central Bank makes available US$2bn to lend to local banks at a cost of 150bps plus LIBOR in a bid to ease US$ liquidity.
- Central bank repo rate rises to 5.17% in its weekly auction held October 13.

Chart 28: GCC - $2.5trn investment projects...



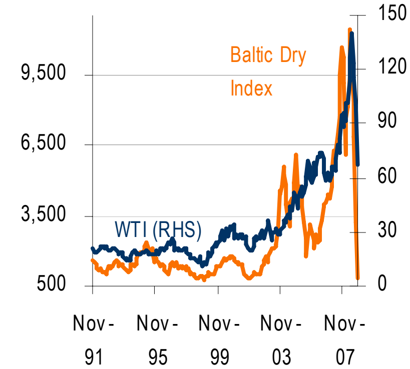
Source: MEED Projects

Chart 29: GCC - investment projects likely to be scrapped



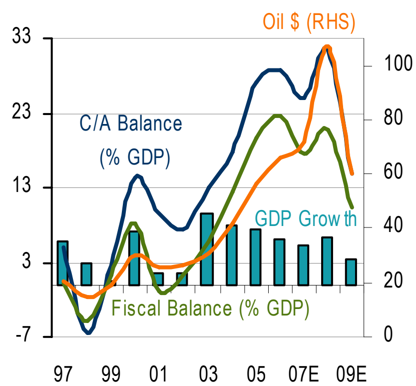
Source: MEED Projects

Chart 30: Oil price (WTI) & Baltic Dry Index



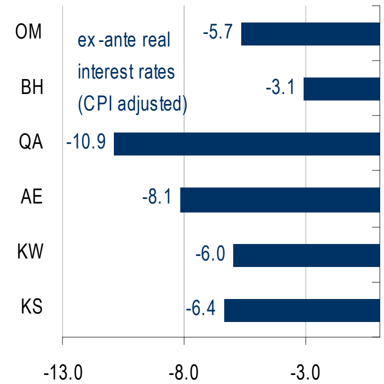
Source: Bloomberg

Chart 31: GCC – macro indicators



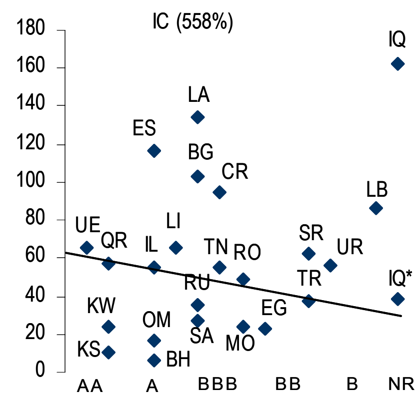
Source: IMF, national official data, EcoWin, Merrill Lynch estimates

Chart 32: GCC - real interest rates (%)*



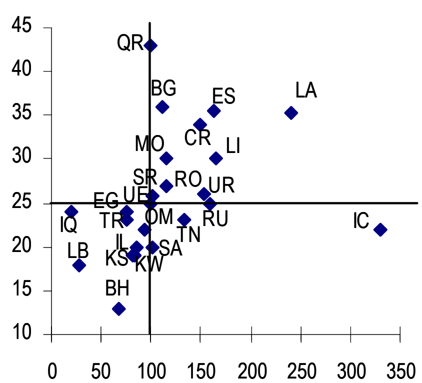
Source: Merrill Lynch, central banks *Deflated with 2008 CPI forecast

Chart 33: Gross external debt / GDP (y-axis) vs sovereign credit rating



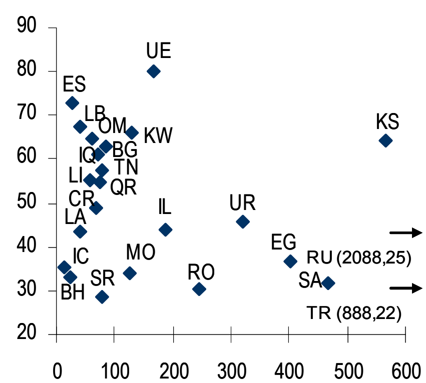
Source: World Bank, Bloomberg *The line is median ratios for ratings

Chart 34: Investment spending / GDP (y-axis) vs loan to deposit ratio (x-axis)



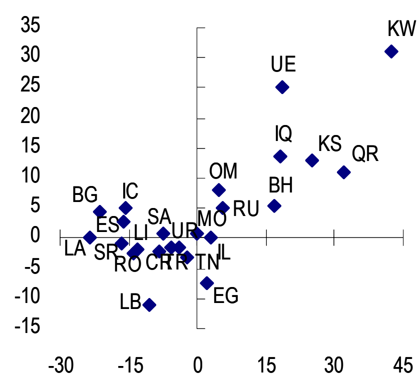
World Bank, IFS, Merrill Lynch estimates, national sources

Chart 35: G&S exports / GDP (y-axis) vs GDP at PPP (x-axis)



Source: World Bank, IFS, Merrill Lynch estimates, national sources

Chart 36: Budget balance (y-axis) vs current account balance (x-axis)

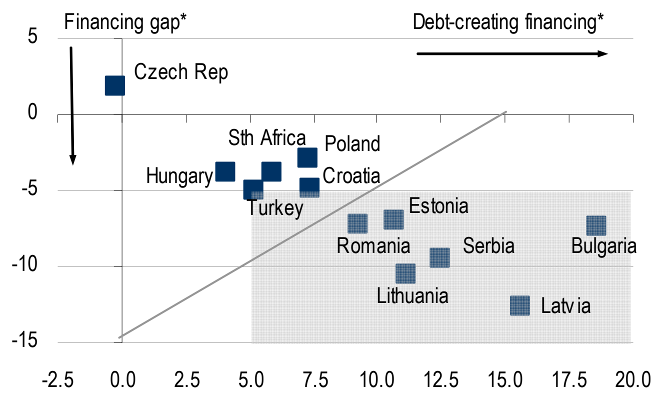


Source: IFS, Merrill Lynch estimates, national sources

Data as of 2007. BG:Bulgaria, BH:Bahrain, Croatia:CR, Egypt:EG, Estonia:ES, Kuwait:KW, Iceland:IC, Iraq:IQ, Israel:IL, Latvia:LA, Lebanon:LB, Lithuania:LI, Morocco:MO, Oman:OM, Qatar:QR, Romania:RO, Russia:RU, Saudi Arabia:KS, Serbia:SR, S.Africa:SA, Tunisia:TN, Turkey:TR, UAE: UE, Ukraine:UR

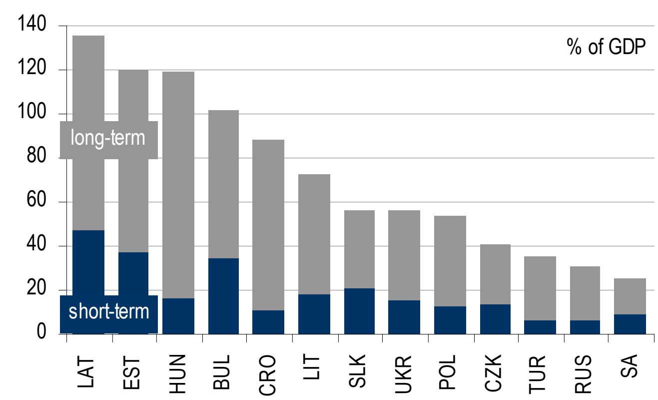
Emerging EMEA top charts

Chart 37: EEMEA: C/A vs debt-creating financing (% of GDP)



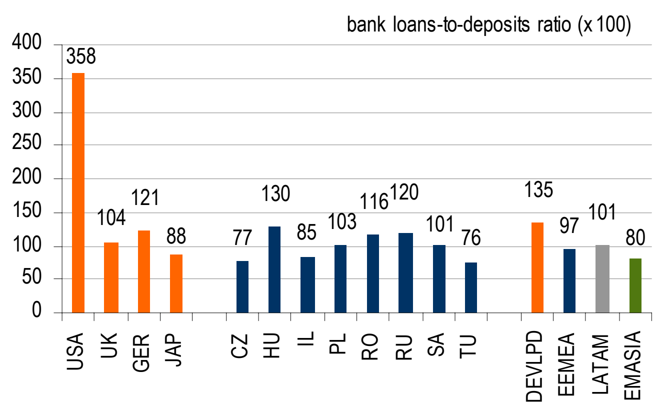
Source: Merrill Lynch. *Current account balance + errors and omissions, **Portfolio and 'other' investments.

Chart 38: Emerging EMEA: gross external debt (% of GDP)



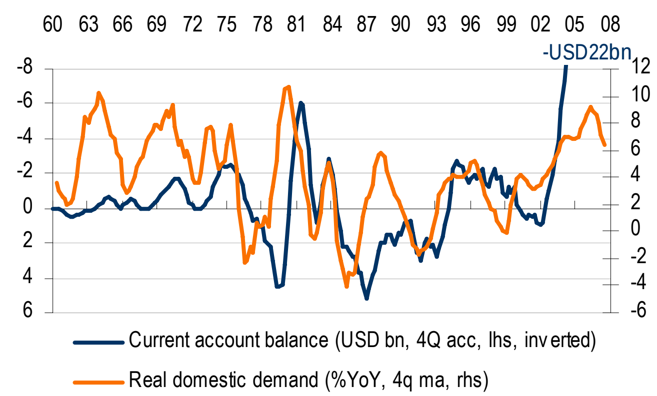
Source: Joint BIS-IMF-OECD-WB External Debt Hub, Merrill Lynch.

Chart 39: Banking system leverage (loans-to-deposits ratio, x100)



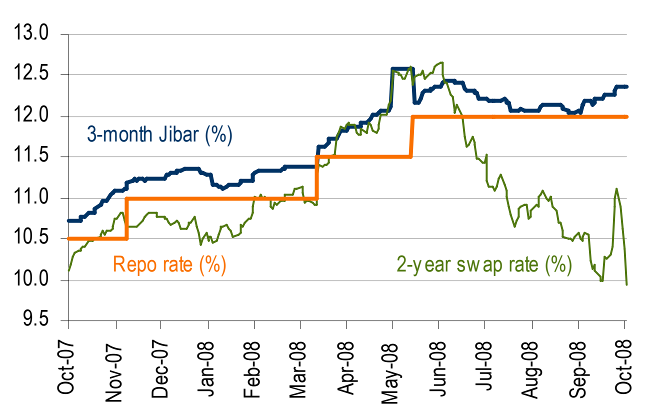
Source: Merrill Lynch Global Emerging Markets Banks and Economics Research.

Chart 40: South Africa: current account vs domestic demand



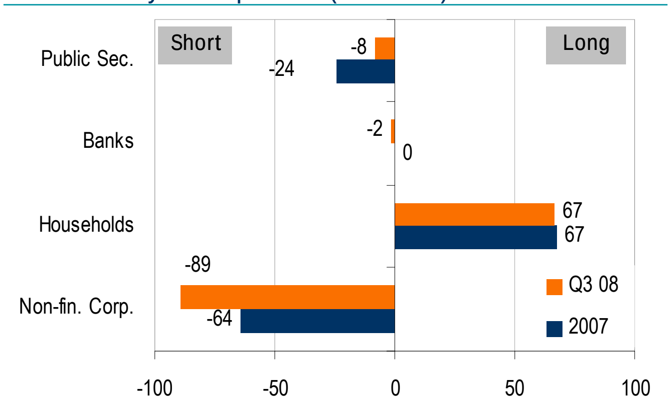
Source: EcoWin, I-Net Bridge, Merrill Lynch.

Chart 41: South Africa: repo rate vs market rates (%)



Source: Bloomberg, Merrill Lynch.

Chart 42: Turkey: net FX positions (USD billion)



Source: Merrill Lynch estimates.

Emerging EMEA in a nutshell

Table 9: Major Emerging EMEA economies in a nutshell

06/11/2008	Economic outlook summary
Russia	Global uncertainty and spike in political risks affect Russia. We downgraded our forecasts of GDP growth to 7.4% and 5.8% in 2008 and 2009 respectively. We expect decoupling between market performance and economic trends as markets are much more sensitive for oil price decline. We estimate US$60/bbl to be crucial threshold for economic trends. The banking sector is evidently the biggest victim of the recent wave of liquidity crunch. While short-term liquidity a manageable problem, the shortage of longer-term financing could be a serious constraint for asset growth. We also change our view on inflation to13.5% in 2008-end and see further monetary tightening is unlikely as the CBR and the government are currently supporting liquidity. Strong current account and fiscal surplus makes the country more protected from capital flows and global uncertainty.
Turkey	The slow down in Europe, deepening credit crunch and much weaker TRY strengthened the headwinds on Turkish GDP growth. We expect GDP growth to slow down in H208, and further in 2009 (MLe. GDP growth 3.9% in 08, 3.5% in 09). Lower oil prices are not only improves external balance but also supportive of domestic demand. A slowing Europe represents major headwinds for Turkish export growth (MLe. CA/GDP: -6.4% in 08, -5.5% in 09). Budget performance largely depends on non-tax revenues, especially privatisations (MLe: -1.8% of GDP). Inflation is likely to have peak at c.12% in Jul'08 and likely to come down in 2009 (MLe: 9.5% YE08, 7% YE09). The CBT is likely to hold rates at 16.75% till end-2008 and cut 175bp in 09.
Poland	Poland's economic growth is likely to slow from 4.9% this year to 3.3% in 2009, on our forecasts. Growth moderation notwithstanding, inflation remains high (MLe: 4.4% in 2008) - still well above the NBP's 2.5%±1%pt. inflation target. External position remains solid, but is likely to keep deteriorating on cyclical factors (C/A deficit to widen to -5.5% of GDP in 2008, and further towards 6%/GDP in 2009). Fiscal position has been very strong supported by cyclical factors (MLe fiscal deficit: -2.2% of GDP in 2008). NB. Cyclically-adjusted fiscal deficit is at around -3.5% of GDP. Monetary policy outlook has become more complicated in the wake of the global financial turmoil, which has prompted us to revise our interest rate forecast down recently to 6.00% for end-2008 and end-2009 (see: Emerging EMEA: emergency forecast changes, 9 October 2008).
South Africa	High inflation, policy tightening and electricity supply disruptions will result in growth slowing this year (MLe: 3.0%). We think household consumption growth will remain muted well into 2009. Despite slower growth, inflation is will remain elevated as services and core inflation continues to rise. We expect CPIX inflation to re-enter the target in 2010. While policy rates have peaked, we think aggressive easing is unlikely. Fiscal policy remains prudent (budget surplus of 0.5%/GDP over MTEF), but higher infrastructure costs, populist pressures and slowing profits growth are risks. SA's weak spot is still the large C/A deficit (MLe: 7.1%/GDP), particularly against a backdrop of global credit and growth concerns, as well as domestic political risk.
Israel	Strong export performance has kept GDP growth strong (MLe: 4.4% YoY in 08) but with exports to the US accounting for almost 17% of Israeli GDP, economic growth is likely to slow going into 2009. Still, thanks to Israel's strong invisibles income, current account will be in the black in 2008 (MLe: 1.3%). Despite the slowdown in growth, budget deficit is likely to be reduced to 1.0% of GDP as targets were set conservatively. With the economy close to full employment and growth above potential inflation will come down more gradually than in previous cycles (MLe:4.70% in 2008). The BoI maintains a easing bias (MLe: 3.25% in 08) but will become more data dependent in H209.
Czech Republic	GDP growth is poised to slow down from 4.1% in 2008 to 2.7% in 2009, on our forecasts, due to a mix of global financial crisis, weaker domestic demand and relative currency strength. Headline inflation remains high (6.6%YoY), but it's overstated by idiosyncratic one-off factors and it should collapse towards 2% by mid-2009, additionally helped by strong CZK and a high FX-to-inflation pass-through (25-35% on ML estimates). Fiscal deficit should stabilize following the plunge to 1.6% of GDP last year (MLe: -1.3% of GDP in 2008). On the external front, C/A deficit should fall below 2%/GDP (MLe: -1.8% of GDP). Given the escalation of the global financial turmoil and the co-ordinated easing cycle in Western Europe, we now see interest rates at 2.50% in end-2008, and falling further to 2.00% in 2009.
Hungary	Hungary clearly appears to be headed for an outright recession next year. In part becasue of the cyclical slowdown in external demand, in part because the financial turmoil that forced Hungary to enter the EUR20bn deal with the IMF/EU/WB 'syndicate' will require a significant additional fiscal tightening next year. Consequently, we now expect an outright recession in 2009 (MLe: -0.7% vs. 1.4% GDP growth in 2008). Inflation remains elevated (5.7%YoY in Sep), but largely boosted by one-off distortions, and there are early signs of underlying disinflation (eg, core inflation is now trending at c.4.5%). Given the large negative output gap (c.-2% of GDP), strong HUF, and favourable base effects we expect the headline CPI inflation to gradually fall towards 4% next year. The cyclical economic downturn should further reduce Hungary's "twin deficits", with both fiscal and current account deficits falling towards 4.0-4.5% of GDP each in 2008. Following the NBH emergency 300bps rate hike in October (to stabilize the plummeting HUF) we now see policy rate at 11.50% in end-2008, but still expect them to fall sharply, to 6.50%, in 2009 as markets stabilize and global economy drags Hungary into recessionary environment.
Romania	GDP growth has been surprisingly strong this year (MLe: 8.4%), but as it was boosted by one-off factors (eg, surge in agriculture output) GDP dynamics is poised to cool down in 2009 (MLe: 4.0%). Inflation is projected to massively overshoot the NBR inflation target of 4±1% due to a combination of domestic underlying inflation pressure and external shocks (MLe: 8.1% in 2008). In the context of global financial turmoil we no longer expect interest rate hikes in Romania (which otherwise would have been inevitable given the overheated economy) and see rates unchanged at 10.25% in the foreseeable future. Fiscal policy will remain expansionary (MLe fiscal deficit: -3.0% of GDP) putting extra pressure on prices and the current account deficit, which is likely to stay close to the current -13.5% of GDP on ML forecasts.
Egypt	Egypt's investment driven growth should remain strong in FY09, moderating only slightly to 5.2% mainly due to slowing private consumption and investment. Inflation is the main problem. High energy and food prices, and generous public sector wage increases pushes CPI to historical highs (MLe: ave. FY09 18%), creating social unrest. The central bank is done with the tightening cycle (MLe: FY09 10%) but may also consider more currency appreciation. We expect the budget deficit to widen only slightly in FY09 (MLe: -7.0% of GDP) as government's fiscal measures are likley to cover the cost of higher wages and subsidies. The C/A surplus is likely to fall into deficit as net exports get deeper into the red (MLe: C/A -2.1% of GDP).
Ukraine	Economic performance in Ukraine presents a mixed picture for 2008. We are positive on economic growth in 2008 (ML view: 7% YoY in 2008). The good harvest has come as a pleasant surprise for GDP expansion this year. However, 2009 is unlikely to be easy. Aggressive foreign borrowing is unlikely to be a widely available option in the current market environment, which may affect credit expansion and thus consumption growth in 2009 and beyond. Recently, the sentiment on the country soured on the back of clear spike in political risks, high inflation and higher probability of gas price doubling which may result in CA widening to 11% of GDP in 2009. The depreciation pressure on the hryvnya is strengthening. Unfortunately, these factors are narrowing room for manoeuvre with policy response, in our view

Table 9: Major Emerging EMEA economies in a nutshell

06/11/2008	Economic outlook summary
Kazakhstan	The global liquidity crunch has affected Kazakhstan significantly, resulting in a soft landing for the economy. GDP growth is forecast at 6.5% YoY in 2008 although risks associated with quality of banking assets may result in further slowdown. Consumer demand soured on the back of negative real wage growth and slowdown in credit expansion. High oil prices are strong argument against a hard landing. The NBK is likely to keep the tenge around KZT120-121/US$ while reserve accumulation will probably continue. Current account surplus exceeded 10% of GDP in 1H08 and we are positive on its further trend in 2008 and beyond. These factors strengthen our optimism for an economic rebound in 2009 and beyond although tax reform may deteriorate performance of raw material sector. PPI of 56.6% YoY (Aug08) imposes additional risk for industrial growth.
Slovakia	Slovakia has been given a green light by the EcoFin to adopt the Euro in January 2009. On July 8 the EUR-SKK conversion rate was set at 30.1260 (the same as the most recent central parity rate within the ERM-2). On the real economy front, after the one-off boost in 2007, GDP growth should moderate in 2008 (MLe: 6.8%). Inflation (HICP) is poised to rise further to above 5% in the short-term, in part due to domestic, in part due to external factors. Fiscal deficit is likely to stay at a comfortable -2 % of GDP, while current account deficit should narrow towards 4% of GDP in 2008, aided by the favourable cyclical position resulting from super-strong growth.
Bulgaria	GDP growth is expected to moderate in 2008 (MLe: 5.6%). Tighter global liquidity conditions are likely to decrease FDI, credit growth and ultimately, private consumption. Inflation and the current account deficit will remain the main concerns, with inflation reaching 13%YoY (2008 average) and the current account deficit staying above -21% of GDP. The mix of internal and external imbalances will put under pressure the currency board regime. Fiscal policy will remain counter-cyclical. However, the fiscal budget surplus is expected to decrease somewhat, towards 3% of GDP.
Saudi Arabia	As the world's largest oil producer, the country has benefited from high oil prices that bump up its current account (MLe: 31% of GDP) and budget (MLe: 16% of GDP) surpluses. GDP growth (MLe: 4.9%) should continue to be driven by non-oil sectors (MLe: 6.2%) such as finance, construction, transport and communication and petrochemicals in 2008. Oil output is likely to decrease in 2009, pulling down GDP growth (MLe: 4.0%). Inflation should continue to rise in 2008 (MLe: ave. 9.8% YoY) and start coming down in 2009 (MLe: ave. 9.0% YoY). Authorities are likely to remain loyal to the $ peg.
UAE	GCC's most diversified and open economy. Domestic credit expansion, high population growth (c.6% YoY), infrastructure spending and the vibrant non-oil sectors (MLe: 8.2% YoY) supported growth in the UAE (MLe: 6.8% YoY) in 2008. Thanks to Abu Dhabi, home to 90% of UAE's oil wealth, current account and fiscal surpluses are sizeable (MLe: 23% and 30% of GDP, respectively) in 08. Inflation is likely to increase in 2008 (MLe: ave.11.8% YoY) and start coming down in 09 (MLe: 10.5% YoY). Credit crunch and global downturn will hit UAE's open economy and growth should slow down in 09 (MLe: 4.5% YoY).
Qatar	With both its oil and non-oil sectors growing at double-digit speed, Qatar should remain one of the fastest-growing markets in 2008 (MLe. 14.5% real GDP growth). As the largest exporter of LNG in the world, the country should continue to benefit from the hydrocarbon boom, piling up large external and fiscal surpluses (37.5% and 13.2% of GDP, respectively) this year. It has the fastest-growing population in the GCC (c.18% YoY 2007) and a significantly undersupplied real estate market. Supply bottlenecks and deeply negative policy rates are pushing inflation higher in 2008 (MLe: ave. 15.6% YoY). Qatar's investment driven, capital intensive growth likely will face headwinds in 09 with credit crunch and global economic downturn (MLe:9.5% YoY).
Kuwait	The Kuwaiti macro story continues to be driven by oil, which affords the state the largest surpluses in the GCC region (MLe. CA surplus: 52.8% of GDP, budget surplus: 32% of GDP in 2008). The lack of political determination for diversification has caused Kuwait to lag most of its GCC neighbours so far (MLe. GDP growth: 5.6% YoY in 2008). Still the huge amount of cash and still-pending projects keep the medium-term outlook strong. Inflation as elsewhere continues to climb (MLe: ave. 9.7% YoY in 2008). Although Kuwait abandoned the dollar peg and adopted a basket in 2007, the appreciation is still modest and interest rates continue to come down.
Oman	With declining oil output, the economy is being propelled by services and gas-based industries in 2008 (MLe. 6.4%). High oil prices helped Oman post strong external and fiscal surpluses (MLe: 6% of GDP and 10% of GDP, respectively) but going forward revenues likely will be eroded unless the Sultanate is successful in boosting hydrocarbon output. Despite a USD15bn investment plan for the oil and gas sectors, the outlook is less than rosy with high recovery costs and limited reserves. Inflation (MLe: ave. 12% YoY) is pushed up by food and rent prices, along with negative real interest rates that boost bank lending.
Bahrain	The non-oil sector remains the main driver of the resource-poor Bahraini economy in 2008 (MLe. GDP: 5.4%). While the country's long-held status as a banking hub is being eroded by Dubai, the financial services, manufacturing and tourism sectors remain the focus of the ongoing diversification play. With limited petrodollars the budget surplus should stay modest (MLe: 7.0% GDP) by regional standards, while the C/A surplus (MLe: 21.5% of GDP) will be boosted by oil exports thanks to a large refining capacity. While inflation should continue to rise in 2008 (MLe: ave. 5.5%), it likely will be the region's lowest as the country remains a more mature diversification story.
Nigeria	Despite the lower oil price and production (resulting from ongoing conflict in the Niger Delta), near term growth should remain robust (2008 MLe 7.3%). However, strong liquidity growth and rising food prices likely will result in accelerating inflation (MLe 11.5% YoY) which requires continued CBN tightening and greater exchange rate flexibility. However, so far the CBN has shown a dovish bias with added liquidity negative for inflation. Rising government expenditure likely will only be partly allocated to much needed infrastructure, given absorption/institutional constraints. Growing FX reserves and low external debt make Nigeria less vulnerable than in the past, but Nigeria likely will be negatively impacted by a global growth slump in 2009.

Source: Merrill Lynch.

Emerging EMEA economic forecasts

Table 10: Emerging EMEA economic forecasts

Updated as of: 06/11/2008	Real GDP Growth (%)				CPI Inflation (%, avg.)				Nominal GDP (USD billion)			
	2006	2007	2008F	2009F	2006	2007	2008F	2009F	2006	2007	2008F	2009F
Russia	6.7	8.1	7.4	5.8	9.8	9.0	14.1	12.0	980.2	1294.0	1626.0	1951.0
Turkey	6.9	4.6	3.9	3.5	9.6	8.8	10.1	8.1	527.6	655.9	790.5	734.1
Poland	6.2	6.5	4.9	3.3	1.1	2.5	4.4	4.4	341.3	422.0	457.7	493.6
South Africa	5.4	5.1	3.0	2.7	4.7	7.1	12.3	8.3	257.5	284.2	283.7	310.5
Israel	5.1	5.3	4.4	2.9	2.1	0.5	4.7	3.3	141.6	161.8	207.6	220.6
Czech Republic	6.4	6.5	4.1	2.7	2.5	2.8	6.7	2.4	142.5	175.7	200.9	211.2
Hungary	3.9	1.1	1.4	-0.7	3.9	8.0	6.2	3.9	112.9	138.4	139.9	144.3
Nigeria	6.2	6.4	7.3	8.0	8.3	5.4	11.5	10.0	146.9	166.8	211.0	263.5
Romania	7.9	6.0	8.4	4.0	6.6	4.8	8.1	7.0	123.2	168.4	176.7	196.6
Egypt ‡	6.8	7.1	7.2	5.2	4.2	11.0	11.7	18.0	107.5	130.5	162.6	202.5
Ukraine	7.1	7.3	7.0	5.5	9.1	12.8	24.7	14.1	106.7	141.0	191.0	238.0
Kazakhstan	10.6	8.5	6.5	8.0	8.8	10.8	18.1	8.9	80.5	102.6	131.3	155.6
Slovakia	8.5	10.4	6.8	5.0	4.4	1.8	3.9	4.5	56.0	75.2	85.8	94.2
Bulgaria	6.3	6.2	5.6	4.8	7.4	7.6	13.0	11.9	31.2	38.9	44.5	52.2

Source: Merrill Lynch, Bloomberg, EcoWIn, national statistics offices. ‡ Fiscal year - July-June. * Forecasts under review.

Table 11: Emerging EMEA economic forecasts

Updated as of: 06/11/2008	Fiscal Balance (% of GDP) †				Public Debt (% of GDP, eop) †				Current Account Balance (% of GDP)			
	2005	2006	2007	2008F	2005	2006	2007	2008F	2005	2006	2007	2008F
Russia	7.5	7.7	5.0	5.0	15.9	8.8	7.5	5.9	11.3	9.6	6.1	6.8
Turkey	-1.5	-0.5	-1.6	-1.8	53.9	48.1	41.3	40.0	-4.8	-6.1	-5.7	-6.4
Poland	-4.3	-3.8	-2.0	-2.2	47.1	47.6	45.2	42.3	-1.6	-3.2	-3.7	-5.5
South Africa	-0.5	0.3	0.7	-0.1	34.1	32.1	28.2	24.8	-3.8	-6.5	-7.3	-7.1
Israel	-1.8	-0.9	0.0	-1.0	94.0	85.0	79.0	78.0	3.3	6.0	3.1	1.3
Czech Republic	-3.6	-2.7	-1.6	-1.3	29.7	29.4	28.7	27.5	-2.3	-3.1	-2.4	-1.8
Hungary	-7.8	-9.2	-5.5	-3.8	61.6	65.6	66.0	64.7	-6.8	-6.5	-5.0	-4.2
Nigeria	9.4	7.7	0.4	6.3	28.6	11.8	12.4	13.0	7.1	9.5	2.1	6.0
Romania	-1.2	-2.2	-2.5	-3.0	15.8	12.4	13.0	13.6	-8.9	-10.4	-13.9	-14.2
Egypt ‡	-9.6	-8.2	-7.3	-6.8	112.8	98.8	89.2	80.8	3.2	1.6	1.7	0.5
Ukraine	-1.8	-0.7	-1.4	-2.5	18.7	15.0	13.0	15.5	3.0	-1.5	-4.2	-6.5
Kazakhstan	6.0	7.5	7.0	7.5	8.1	6.8	5.1	5.0	-1.3	-1.4	-7.0	4.6
Slovakia	-2.8	-3.6	-2.2	-2.0	34.2	30.4	29.4	27.9	-8.5	-7.7	-5.4	-3.9
Bulgaria	1.8	3.0	3.4	3.0	29.2	22.7	18.2	15.0	-11.5	-16.3	-22.0	-21.5

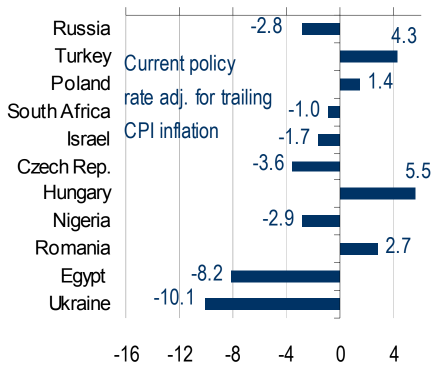
Source: Merrill Lynch, Bloomberg, EcoWIn, national statistic offices. † ESA95 (including pension reform costs) for Poland, Czech Republic, Hungary, and Slovakia. ‡ Fiscal year - July-June. * Forecasts under review.

Table 12: Emerging EMEA quarterly forecasts

Updated as of: 06/11/2008	Q1'06	Q2'06	Q3'06	Q4'06	Q1'07	Q2'07	Q3'07	Q4'07	Q1'08	Q2'08	Q3'08e	Q4'08e
	GDP Growth (YoY%, period averages)											
Russia	5.0	7.0	6.8	7.8	7.9	7.8	7.6	8.5	8.5	7.6	7.0	6.5
Turkey	5.9	9.7	6.3	5.7	7.6	4.0	3.4	3.4	6.6	1.9	3.4	3.2
Poland	5.5	5.9	6.2	6.7	7.2	6.4	6.4	6.1	6.1	5.8	4.3	3.5
South Africa	5.0	5.0	4.8	5.2	5.5	5.1	5.1	4.9	3.9	4.2	2.5	1.9
Hungary	4.9	3.8	3.8	3.2	2.7	1.2	0.9	0.8	1.7	2.0	0.9	0.5
	CPI inflation (YoY%, end-of-period)											
Russia	10.6	9.0	9.5	9.0	7.4	8.6	9.4	11.9	13.2	14.9	15.0	13.5
Turkey	8.2	10.1	10.5	9.7	10.9	8.6	7.1	8.4	9.2	10.6	11.1	9.5
Poland	0.4	0.8	1.6	1.4	2.5	2.6	2.3	4.0	4.1	4.6	4.5	3.9
South Africa	3.4	4.9	5.3	5.8	6.1	7.0	7.2	8.9	10.6	12.2	13.1	12.2
Hungary	2.3	2.8	5.9	6.5	9.0	8.6	6.4	7.4	6.7	6.7	5.7	4.7

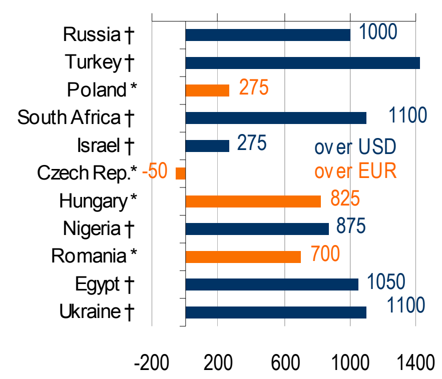
Source: Merrill Lynch, Bloomberg, EcoWin, national statistics offices. * Forecasts under review.

Chart 43: Real interest rates (CPI-adjusted), %



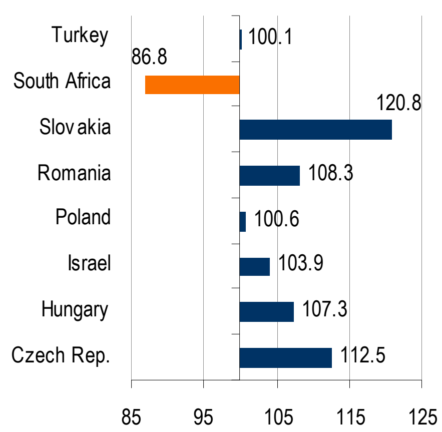
Source: Merrill Lynch, Bloomberg, national central banks.

Chart 44: Interest rates differential, bps



Source: Merrill Lynch, Bloomberg, national central banks.

Chart 45: Monetary conditions indices (MCI)



Source: Merrill Lynch, Bloomberg. *See Annex 2.

Emerging EMEA central bank watch

Table 13: Emerging EMEA interest rate forecasts

Updated as of:	Short-term Interest Rate (%) *				Real Interest Rate, CPI-adjusted (%)			
06/11/2008	Current	2007	2008F	2009F	Current	2007	2008F	2009F
Russia	11.00	10.00	11.00	10.00	-2.8	0.9	-2.7	-1.8
Turkey	16.75	15.75	16.75	15.00	4.3	6.4	6.0	6.4
Poland	6.00	5.00	6.00	6.00	1.4	2.4	1.5	1.5
South Africa	12.00	11.00	12.00	12.00	-1.0	3.6	-0.3	3.4
Israel	3.75	4.25	3.25	3.00	-1.7	3.7	-1.4	-0.3
Czech Republic	2.75	3.50	2.50	2.00	-3.6	0.7	-3.9	-0.4
Hungary	11.50	7.50	11.50	6.50	5.5	-0.5	5.0	2.5
Nigeria	9.75	9.50	11.50	10.50	-2.9	3.9	0.0	0.5
Romania	10.25	8.00	10.25	10.25	2.7	3.1	2.0	3.0
Egypt	11.50	8.75	11.50	10.00	-8.2	-2.0	-0.2	-6.8
Ukraine	12.00	8.00	13.00	13.00	-10.1	-4.3	-9.4	-1.0
Kazakhstan	10.50	11.00	11.50	11.00	-3.0	0.2	-5.6	1.9
Slovakia	3.75	4.25	3.00	--	-1.6	2.4	-0.9	--

Source: Merrill Lynch, Bloomberg, national central banks. * Headline central bank policy rates.

Table 14: Emerging EMEA interest rates differential and exchange rate forecasts

Updated as of:	Rates differential vs. US†/Eurozone* (bps)				Exchange Rate ‡			
06/11/2008	Current	2007	2008F	2009F	CCY Pair	Spot rate	2008F	2009F
Russia †	1000	575	1000	900	USD-RUB	27.0	26.1	23.9
Turkey †	1575	1150	1575	1400	USD-TRY	1.56	1.55	1.30
Poland *	275	100	275	325	EUR-PLN	3.64	3.60	3.10
South Africa †	1100	675	1100	1100	USD-ZAR	10.05	10.40	8.20
Israel †	275	0	225	200	USD-ISL	3.84	3.65	3.35
Czech Republic*	-50	-50	-75	-75	EUR-CZK	24.9	25.0	23.3
Hungary *	825	350	825	375	EUR-HUF	263	275	230
Nigeria †	875	525	1050	950	USD-NGN	118	117	108
Romania *	700	400	700	750	EUR-RON	3.73	3.75	3.30
Egypt †	1050	450	1050	900	USD-EGP	5.53	5.65	5.15
Ukraine †	1100	375	1200	1200	USD-UAH	5.80	--	--
Kazakhstan †	950	675	1050	1000	USD-KZT	120	120	120
Slovakia *	50	25	-25	--	EUR-SKK	30.4	30.13†	--

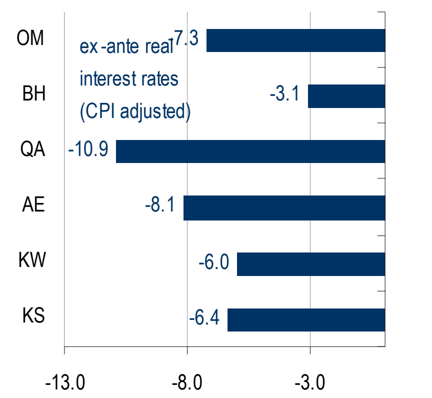
Source: Merrill Lynch, Bloomberg, national central banks. ‡ Year-end forecasts. 2009 forecasts are based on ML fair value model (COMPASS). † Slovakia: officially agreed EUR-SKK conversion rate (30.1260) as of 1 Jan 2009, when Slovakia is scheduled to adopt the euro.

Table 15: Emerging EMEA central banks meetings - dates and expected rate changes (bps)

06/11/2008	Current	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Czech Rep.	2.75	X	-25 (17th)	X	-25 (7th)	(26th)	X
Hungary	11.50	(24th)	(22nd)	-25 (-)	(-)	-50 (-)	(-)
Israel	3.75	-25 (24th)	(29th)	(-)	(-)	(-)	(-)
Poland	6.00	(26th)	(23rd)	(-)	(-)	(-)	(-)
Romania	10.25	X	X	(6th)	(4th)	(-)	(-)
Slovakia	3.75	-50 (25th)	-25 (19th)	*Slovakia scheduled to join Euro area in Jan 2009.*			
South Africa	12.00	X	(11th)	X	(-)	X	(-)
Turkey	16.75	(19th)	(18th)	-25 (-)	-25 (-)	-25 (-)	(-)

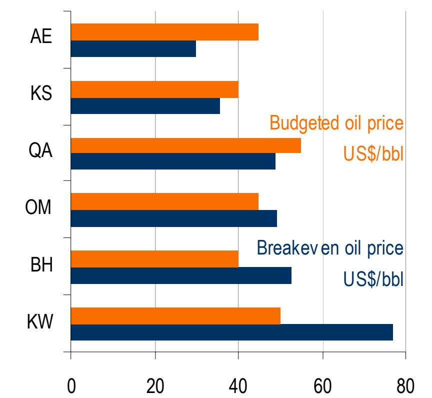
Source: Merrill Lynch, Bloomberg, Reuters, national central banks. "X" - no meeting. "(-)" - exact date of the meeting not announced yet.

Chart 46: GCC: real interest rates (%)*



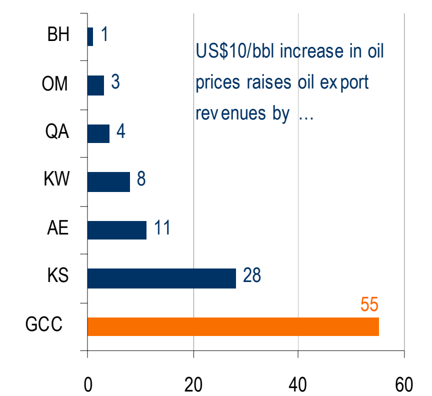
Source: Merrill Lynch, central banks *Deflated with 2008 CPI forecast

Chart 47: GCC: breakeven budget* oil prices



Source: Merrill Lynch estimates, national official data *Based on official 2008 budget targets. **Kuwait has announced one off budget transfer of c.US$20bn to capitalise social security system

Chart 48: GCC: export revenues (USD billion)



Source: Merrill Lynch estimates, national official data

GCC monitor

Table 16: GCC economic forecasts

Updated as of:	Nominal GDP (USD billion)				Population (mn)			
06/11/2008	2005	2006	2007	2008F	2005	2006	2007	2008F
S. Arabia	315.6	356.6	381.7	461.7	23.6	24.2	24.7	25.5
UAE	139.7	170.1	198.7	242.1	4.2	4.5	4.8	5.1
Qatar	42.5	52.7	71.0	98.7	0.9	1.0	1.2	1.4
Kuwait	80.8	101.6	112.0	136.3	2.7	2.8	2.9	3.0
Oman	30.9	35.7	40.3	49.5	2.5	2.5	2.6	2.7
Bahrain	13.5	15.8	17.5	20.0	0.7	0.7	0.8	0.8
GCC	622.9	732.6	821.4	1008.4	34.7	35.8	36.9	38.4

Source: Merrill Lynch, Bloomberg, EcoWin, national statistics offices

Table 17: GCC economic forecasts

Updated as of:	Real GDP Growth (%)				CPI Inflation (%, avg.)			
06/11/2008	2005	2006	2007	2008F	2005	2006	2007	2008F
S. Arabia	5.6	3.2	3.4	4.9	0.7	2.2	4.1	9.8
UAE	8.2	9.4	7.4	6.8	6.2	9.3	11.1	11.8
Qatar	9.2	15.0	12.5	14.5	8.8	11.8	13.7	15.6
Kuwait	11.4	6.3	4.5	5.6	4.1	3.1	5.5	9.7
Oman	6.0	5.9	6.5	6.4	1.9	3.4	5.9	12.0
Bahrain	7.9	6.7	8.1	5.4	2.6	2.2	3.2	5.5
GCC	7.3	6.1	5.4	6.2	3.1	4.7	6.7	10.7

Source: Merrill Lynch, Bloomberg, EcoWin, national statistics offices

Table 18: GCC economic forecasts

Updated as of:	Fiscal Balance (% of GDP)				Current Account Balance (% of GDP)			
06/11/2008	2005	2006	2007	2008F	2005	2006	2007	2008F
S. Arabia	18.4	21.0	12.3	16.2	28.5	27.7	24.9	31.2
UAE	20.0	28.6	25.0	30.0	17.4	21.8	18.6	23.3
Qatar	9.2	9.0	14.7	13.2	33.2	30.6	30.1	37.5
Kuwait	33.9	30.3	29.3	32.0	42.5	50.7	42.4	52.8
Oman	12.1	14.2	10.3	9.6	16.0	14.2	4.8	5.8
Bahrain	9.0	5.6	3.2	7.0	11.0	13.8	16.6	21.5
GCC	19.8	22.5	17.5	20.9	27.2	28.8	25.1	31.3

Source: Merrill Lynch, Bloomberg, EcoWin, national statistics offices

Table 19: GCC Inflation and Central Bank Watch - latest official figures

Updated as of:

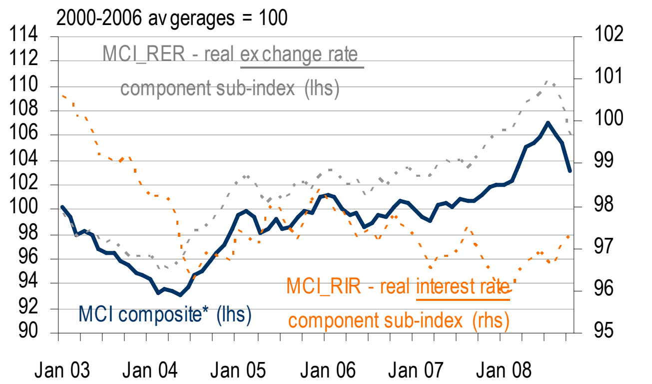
06/11/2008	CPI Inflation (% YoY, avg.)		Policy Rate (%)	
S. Arabia	Aug-08	10.9	O/N reverse repo rate	2.00
UAE	2007	11.1	O/N repo rate	1.50
Qatar	Q2 08	16.6	O/N deposit rate	2.00
Kuwait	Jul-08	11.1	Repo rate	2.00
Oman	Aug-08	13.7	O/N interbank lending rate	2.47
Bahrain	Sep-08	9.0	One-week deposit rate	1.50

Source: Bloomberg, EcoWin, national official data

For our in-depth report on GCC see: GCC Quarterly, 10 July 2008

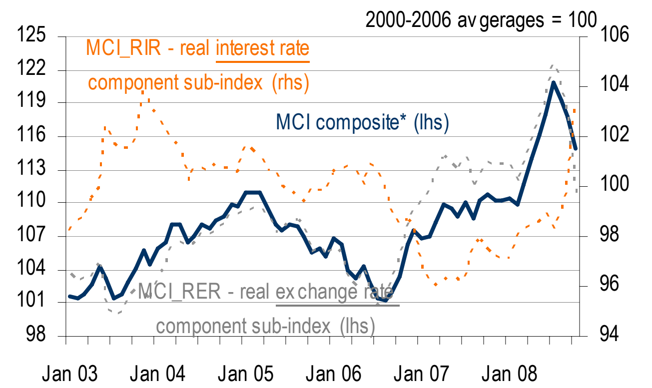
EEMEA monetary conditions (MCIs)

Chart 49: Poland: Monetary conditions index (MCI)*



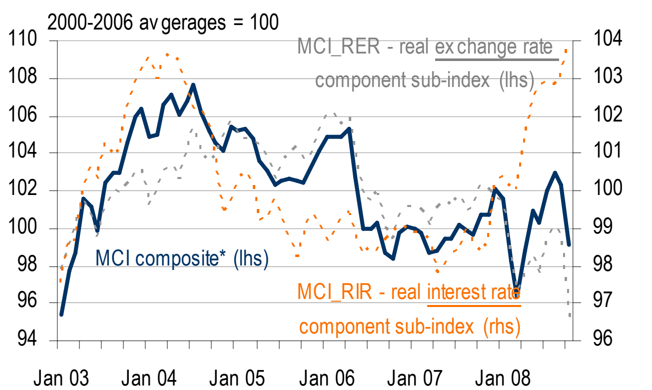
Source: Merrill Lynch. *Increase = tighter monetary conditions. Last plots as of end-September. See Annex 2.

Chart 50: Hungary: Monetary conditions index (MCI)*



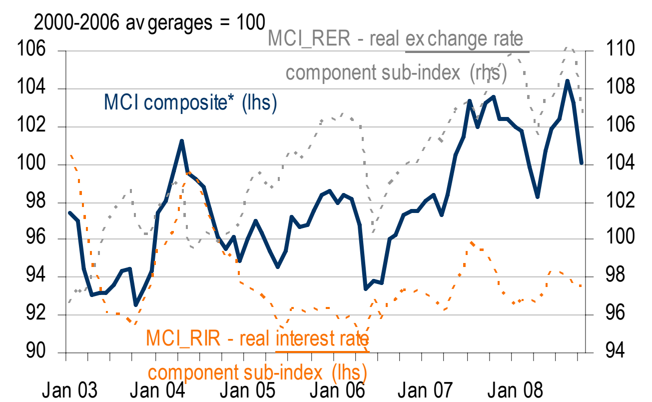
Source: Merrill Lynch. *Increase = tighter monetary conditions. Last plots as of end-September. See Annex 2.

Chart 51: South Africa: Monetary conditions index (MCI)*



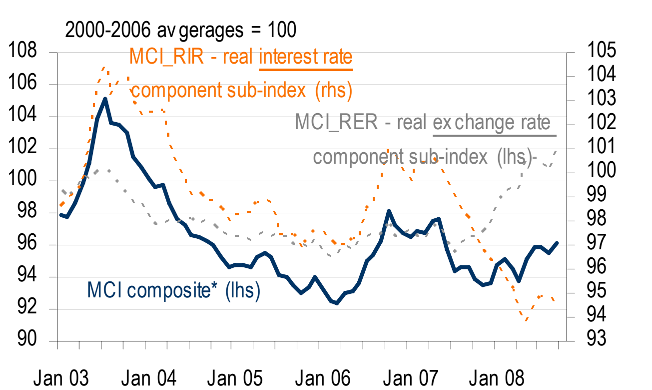
Source: Merrill Lynch. *Increase = tighter monetary conditions. Last plots as of end-September. See Annex 2.

Chart 52: Turkey: Monetary conditions index (MCI)*



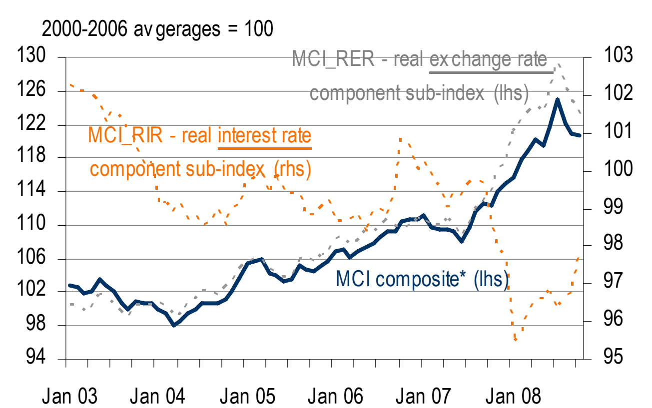
Source: Merrill Lynch. *Increase = tighter monetary conditions. Last plots as of end-September. See Annex 2.

Chart 53: Israel: Monetary conditions index (MCI)*



Source: Merrill Lynch. *Increase = tighter monetary conditions. Last plots as of end-September. See Annex 2.

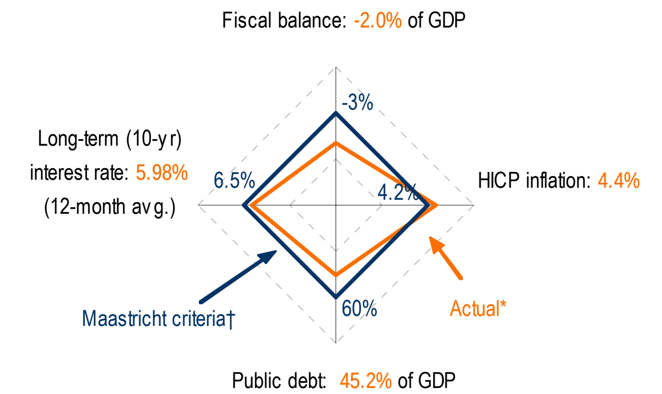
Chart 54: Czech Republic: Monetary conditions index (MCI)*



Source: Merrill Lynch. *Increase = tighter monetary conditions. Last plots as of end-September. See Annex 2.

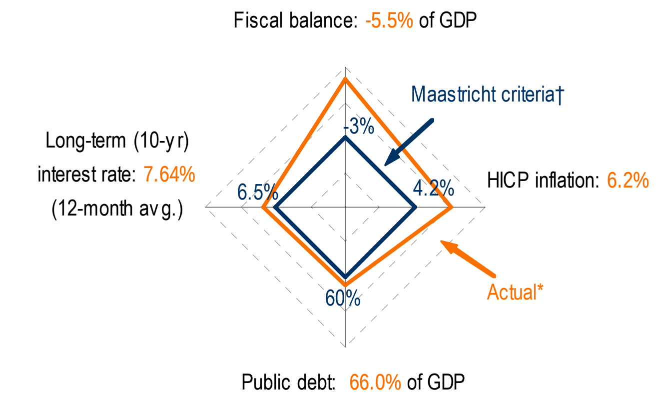
EEMEA: nominal convergence radar

Chart 55: Poland: Nominal convergence indicators*



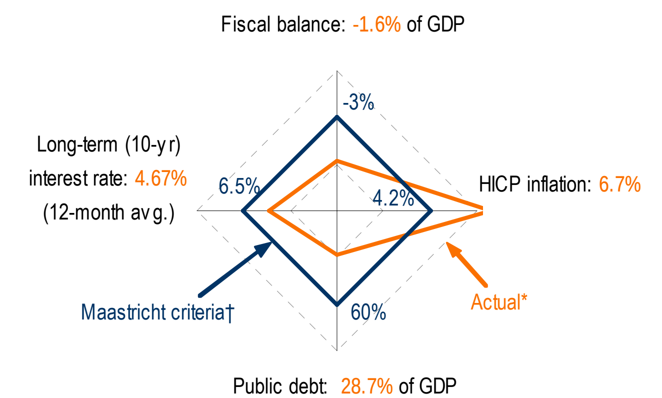
Source: Merrill Lynch, Eurostat. *The latest available official data, except inflation, which is ML 2008 forecast.

Chart 56: Hungary: Nominal convergence indicators*



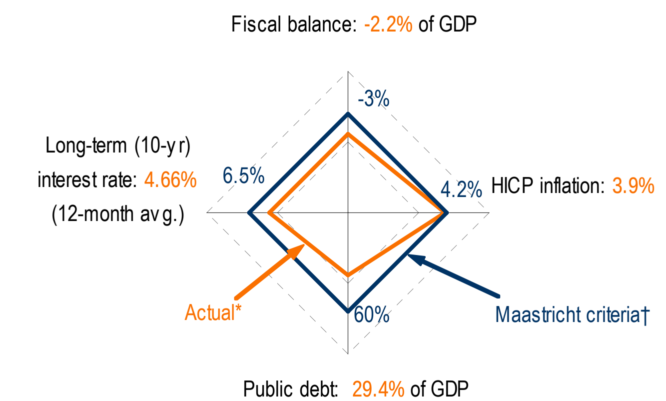
Source: Merrill Lynch, Eurostat. *The latest available official data, except inflation, which is ML 2008 forecast.

Chart 57: Czech Republic: Nominal convergence indicators*



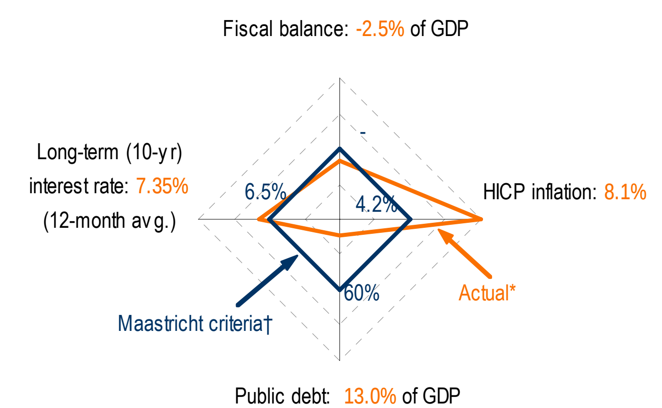
Source: Merrill Lynch, Eurostat. *The latest available official data, except inflation, which is ML 2008 forecast.

Chart 58: Slovakia: Nominal convergence indicators*



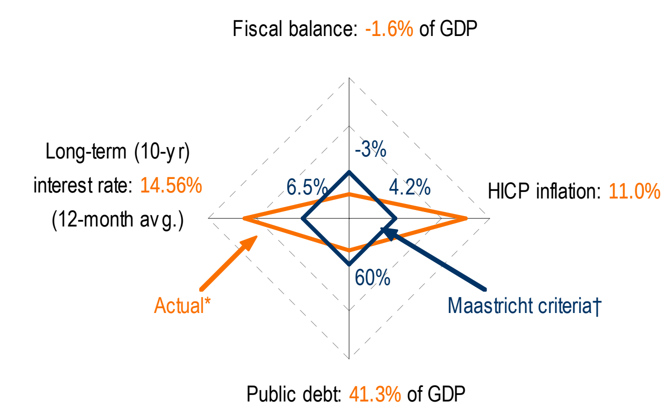
Source: Merrill Lynch, Eurostat. *The latest available official data, except inflation, which is ML 2008 forecast.

Chart 59: Romania: Nominal convergence indicators*



Source: Merrill Lynch, Eurostat. *The latest available official data, except inflation, which is ML 2008 forecast.

Chart 60: Turkey: Nominal convergence indicators*



Source: Merrill Lynch, Eurostat. *The latest available official data, except inflation, which is ML 2008 forecast.

†Maastricht convergence criteria: 1) Fiscal deficit (ESA95): -3.0% of GDP, 2) Public debt (ESA95): 60% of GDP, 3) HICP inflation: avg. of the three EMU countries with the lowest HICP (%YoY, 12-month avg.) + 1.5%pts (4.2%YoY), 4) Long-term interest rate: 10-year avg. in EMU top-3 inflation performers + 2%pts (6.50%).

Global economic forecasts

Table 20: ML Global Economics Forecasts

as of 11/06/2008, 02:30 EST	Real GDP Growth (%)				CPI inflation*, %				Short term interest rates** %				Exchange rate ****			
	2006	2007	2008F	2009F	2006	2007	2008F	2009F	2007	Current	2008F	2009F	CCY Pair	Spot rate	2008F	2009F
Global and Regional Aggregates																
Global	4.8	4.8	3.6	2.1	3.2	3.5	5.6	3.1	5.50	4.79	4.59	4.11				
Global ex US	5.5	5.6	4.3	3.3	3.2	3.7	6.0	3.9	5.90	5.98	5.70	5.06				
G7	2.7	2.2	1.2	-0.7	2.3	2.2	3.4	0.9	3.71	1.87	1.70	1.48				
Developed Markets	2.9	2.5	1.3	-0.5	2.3	2.2	3.5	1.1	3.81	2.19	1.96	1.71				
Emerging Markets	7.6	7.9	6.7	5.4	4.5	5.4	8.3	5.7	7.95	8.48	8.20	7.40				
Emerging EMEA	6.4	6.4	6.0	4.7	6.5	7.3	11.5	9.6	9.27	10.48	10.55	9.69				
Emerging Asia	9.1	9.4	7.9	6.7	3.2	4.3	6.8	3.2	6.43	6.10	5.75	5.23				
Latin America	5.4	5.6	4.5	2.6	5.2	5.4	7.8	7.3	10.46	13.16	12.25	10.71				
Americas	3.5	3.1	2.2	-0.7	3.6	3.5	4.9	2.2	5.75	4.00	3.84	3.43				
EMEA	4.1	4.0	2.8	1.8	3.6	3.9	6.2	4.7	5.75	5.74	5.58	4.92				
PacRim	7.2	7.5	6.0	5.2	2.4	3.2	5.5	2.5	4.98	4.67	4.39	3.99				
PacRim ex Japan	8.7	9.1	7.5	6.3	3.1	4.1	6.6	3.2	6.33	5.91	5.54	5.04				
G-7																
Canada	2.8	2.7	0.6	-0.3	2.0	2.2	2.6	1.2	4.25	2.25	2.00	1.50	USD-CAD	1.18	1.09	1.12
Euro area	3.0	2.6	1.1	0.4	2.2	2.1	3.4	1.9	4.00	3.75	3.25	2.75	EUR-USD	1.28	1.44	1.33
France	2.4	2.1	0.8	0.3	1.9	1.6	3.3	1.6	4.00	3.75	3.25	2.75				
Germany	3.2	2.6	1.6	0.6	1.8	2.3	2.8	1.5	4.00	3.75	3.25	2.75				
Italy	1.9	1.4	0.0	0.2	2.2	2.0	3.6	2.0	4.00	3.75	3.25	2.75				
Japan	2.4	2.1	0.6	1.2	0.1	0.0	1.6	0.0	0.50	0.30	0.30	0.30	USD-JPY	98	101	98
UK	2.8	3.0	1.0	-0.2	2.3	2.3	3.8	2.8	5.50	4.50	4.00	3.00	EUR-GBP	0.81	0.81	0.76
US	2.9	2.2	1.5	-1.9	3.2	2.9	4.1	0.4	4.25	1.00	1.00	1.00				
Other OECD Europe																
Austria	3.3	3.0	1.9	1.4	1.7	2.2	3.3	2.1	4.00	3.75	3.25	2.75				
Belgium	2.9	2.8	1.4	0.4	2.3	1.8	4.6	2.4	4.00	3.75	3.25	2.75				
Finland	4.8	4.4	2.3	1.4	1.3	1.6	4.0	2.3	4.00	3.75	3.25	2.75				
Greece	4.2	4.0	2.9	2.0	3.3	3.0	4.4	3.3	4.00	3.75	3.25	2.75				
Ireland	5.7	6.0	-1.0	0.1	2.7	2.9	3.3	2.3	4.00	3.75	3.25	2.75				
Netherlands	3.4	3.5	2.1	0.2	1.7	1.6	2.3	2.2	4.00	3.75	3.25	2.75				
Norway	4.8	6.1	2.5	2.0	2.3	0.8	3.7	2.8	5.25	4.75	4.50	4.00	EUR-NOK	8.79	7.90	8.10
Portugal	1.4	1.9	0.7	0.8	3.0	2.4	2.9	2.0	4.00	3.75	3.25	2.75				
Spain	3.9	3.7	1.1	-0.2	3.6	2.8	4.4	2.6	4.00	3.75	3.25	2.75				
Sweden	4.1	2.6	1.3	0.0	1.4	2.2	3.5	2.0	4.00	3.75	3.25	3.00	EUR-SEK	10.08	9.40	9.40
Switzerland	3.4	3.3	1.8	0.5	1.1	0.7	2.6	1.5	2.75	2.50	2.25	1.75	EUR-CHF	1.50	1.56	1.54
Asia Pacific																
Australia	2.7	4.2	2.5	1.7	3.5	2.3	4.5	3.2	6.75	5.25	4.75	4.25	AUD-USD	0.67	0.79	0.70
China	11.6	11.9	9.9	8.6	1.5	4.8	6.3	1.8	7.47	6.66	6.12	5.31	USD-CNY	6.83	6.80	6.60
Hong Kong	6.9	6.4	3.1	0.0	2.0	2.0	3.9	0.8	3.45	2.44	1.23	1.15	USD-HKD	7.75	7.80	7.80
India	9.0	8.9	7.9	7.7	4.4	4.8	8.7	5.5	6.00	6.00	6.00	6.00	USD-INR	47.7	47.0	42.5
Indonesia	5.5	6.3	5.4	4.0	13.1	6.4	9.1	6.5	8.00	9.50	9.50	10.00	USD-IDR	11050	9600	9400
Korea	5.0	5.0	4.0	1.5	2.2	2.5	4.8	3.2	5.00	4.25	3.75	3.00	USD-KRW	1330	1200	1050
Malaysia	5.9	6.3	4.5	2.5	3.6	2.0	5.9	4.0	3.50	3.50	3.25	3.00	USD-MYR	3.54	3.45	3.20
Philippines	5.4	7.3	4.3	3.1	6.3	2.8	10.0	7.0	5.00	6.00	5.75	5.50	USD-PHP	48.5	47.0	45.5
Singapore	7.9	7.7	2.0	1.0	1.0	2.1	6.4	1.8	2.40	0.82	0.75	0.75	USD-SGD	1.49	1.45	1.38
Taiwan	4.7	5.7	3.9	2.3	0.6	1.8	3.8	2.4	3.38	3.00	2.75	2.00	USD-TWD	32.8	32.0	31.5
Thailand	5.0	4.8	4.5	3.3	4.6	2.2	6.0	3.0	3.20	3.75	3.50	2.75	USD-THB	35.0	34.5	35.0
Latin America																
Argentina	8.5	8.7	6.6	2.6	11.1	8.8	8.7	9.7	13.60	24.56	16.00	14.00	USD-ARS	3.30	3.50	3.90
Brazil	3.7	5.4	5.0	3.1	4.2	3.6	5.7	5.0	11.25	13.75	13.75	12.25	USD-BRL	2.12	1.90	1.80
Chile	4.3	5.1	4.0	3.0	3.4	4.4	8.6	6.5	6.00	8.25	8.25	6.75	USD-CLP	630	580	530
Colombia	6.8	7.7	3.8	3.5	4.3	5.5	6.9	5.7	9.75	10.00	10.00	9.00	USD-COP	2307	2150	2250
Ecuador	4.8	2.5	6.6	2.6	3.3	3.1	6.3	7.1	10.70		8.50	8.00				
Mexico	4.8	3.2	2.0	0.9	3.6	4.0	5.0	4.6	7.50	8.25	8.25	7.00	USD-MXN	12.8	11.8	11.0
Panama	8.7	11.2	7.7	5.8	2.5	4.2	9.0	7.2	6.90		8.25	7.25				
Peru	7.6	9.0	9.0	5.8	2.0	1.8	5.7	4.6	5.00	6.50	6.50	5.00	USD-PEN	3.08	2.85	2.85
Uruguay	7.0	7.4	8.9	3.9	6.4	20.0	7.9	6.7	7.25		7.75	6.00				
Venezuela	10.3	8.4	5.5	3.1	13.7	18.7	31.6	31.0	21.73	22.76	25.00	22.00	USD-VEF	2.15	2.15	2.70

Table 20: ML Global Economics Forecasts

as of 11/06/2008, 02:30 EST	Real GDP Growth (%)				CPI inflation*, %				Short term interest rates** %				Exchange rate ****			
EEMEA																
Bulgaria	6.3	6.2	5.6	4.8	7.4	7.6	13.0	11.9								
Czech Republic	6.4	6.5	4.1	2.7	2.5	2.8	6.7	2.4	3.50	2.75	2.50	2.00	EUR-CZK	24.4	25.0	23.3
Egypt	6.8	7.1	7.2	5.2	4.2	11.0	11.7	18.0	8.75	11.50	11.50	10.00	USD-EGP	5.55	5.65	5.15
Hungary	3.9	1.1	1.4	-0.7	3.9	8.0	6.2	3.9	7.50	11.50	11.50	6.50	EUR-HUF	260	275	230
Israel	5.1	5.3	4.4	2.9	2.1	0.5	4.7	3.3	4.00	3.50	3.25	3.00	USD-ILS	3.87	3.65	3.35
Poland	6.2	6.5	4.9	3.3	1.1	2.5	4.4	4.4	5.00	6.00	6.00	6.00	EUR-PLN	3.54	3.60	3.10
Kazakhstan	10.6	8.5	6.5	8.0	8.8	10.8	18.1	8.9	11.00	10.50	11.50	11.00	USD-KZT	121	120	119
Nigeria	6.2	6.4	7.3	8.0	8.3	5.4	11.5	10.0	9.50	9.75	11.50	10.50				
Romania	7.9	6.0	8.4	4.0	6.6	4.8	8.1	7.0	7.50	10.25	10.25	10.25	EUR-RON	3.70	3.75	3.30
Russia	6.7	8.1	7.4	5.8	9.8	9.0	14.1	12.0	10.00	11.00	11.00	10.00	USD-RUB	26.9	26.1	23.9
Slovakia	8.5	10.4	6.8	5.0	4.4	1.8	3.9	4.5	4.25	3.75	3.00		EUR-SKK	30.4	30.13†	
South Africa	5.4	5.1	3.0	2.7	4.7	7.1	12.3	8.3	11.00	12.00	12.00	12.00	USD-ZAR	9.88	10.40	8.20
Turkey	6.9	4.6	3.9	3.5	9.6	8.8	10.1	8.1	15.75	16.75	16.75	15.00	USD-TRY	1.55	1.55	1.30
Ukraine	7.1	7.3	7.0	5.5	9.1	12.8	24.7	14.1	8.00	12.00	13.00	13.00				
GCC																
Bahrain	7.6	8.1	5.4	3.4	2.9	3.2	5.5	5.0								
Kuwait	5.0	4.5	5.6	2.8	2.8	5.5	9.7	9.0					USD-KWD	0.27	0.26	0.24
Oman	5.9	6.6	6.4	3.3	3.2	5.9	12.0	10.5								
Qatar	10.0	12.5	14.5	9.5	11.8	13.7	15.6	14.5					USD-QAR	3.64	3.55	3.28
Saudi Arabia	3.2	3.4	4.9	2.9	2.2	4.1	9.8	9.0					USD-SAR	3.76	3.75	3.67
United Arab Emirates	9.4	7.4	6.8	3.5	9.3	11.1	11.8	10.5					USD-AED	3.67	3.58	3.29

Source: Merrill Lynch iQ database. * Annual averages. The HICP measure of inflation is used for Euro area economies. ** Central bank target rate, year-end, where available, short-term rates elsewhere. *** Year end forecast. The left of the currency pair is the denominator of the exchange rate. † Slovakia: officially agreed EUR-SKK conversion rate (30.1260) as of 1 Jan 2009, when Slovakia is scheduled to adopt the euro.

EEMEA strategy recommendations

Trade	Entry date	Entry price	Target	Stop	Equity (USDmn)	Notional (USDmn)	Leverage
EXD discretionary portfolio							
Buy Ukraine '13s	29-Oct-08	Buy Ukraine '13s at USD49.00	75.00	39.00	2.00	5.00	1.3
Buy Korea 5y CDS protection	04-Nov-08	Buy Korea 5y CDS at 260bp	500bp	150bp	3.00	10.00	3.3
LDM discretionary portfolio							
Israel: receive 2y rates, pay Telbor 3m (expiry 30-Apr-2010)	28-Apr-08	2y rates at 4.80%, Telbor 3m at 3.82%	2y: 3.25%	2y: 4.50%	3	78.4	26.1
Chile: pay 3y CLP vs Camara swaps (expiry 31-Oct-2011)	28-Oct-08	3y: 7.05%, Camara: 8.25%	3y: 8.00%	3y: 6.50%	3	14	4.7
Mexico: receive 1y rates (expiry 29-Oct-2009), pay 28d TIIE	29-Oct-08	1y rates: 8.97%, 28d TIIE: 8.68%	1y: 8.0%	1y: 9.5%	3	90	30.0
Hungary: receive 2y rates (expiry 29-Oct-2010), pay Bubor 6m	29-Oct-08	2y rates at 10.50%, 6m Bubor at 12.28%	2y: 9.50%	2y: 10.90%	3	41	14.0
FX discretionary portfolio							
Long TRY-ZAR (ie, short USD-TRY and long USD-ZAR)	3 Nov	TRY-ZAR 6.3934 (USD-TRY 1.5465, USD-ZAR 9.8875)	6.70	6.35			
Short 12m SGD-INR NDFs with expiry 30 October 2009 (ie, short USD-INR and long USD-SGD, spot reference SGD-INR 33.1067, USD-INR 48.70, USD-SGD 1.4710)	30 Oct	12m NDFs SGD-INR 37.1644 (12m NDFs USD-INR 54.00, 12m fwd USD-SGD 1.4530)	SGD-INR 30.50	SGD-INR 35.00			
Long 2m 3.17 EUR put PLN call with expiry 21 November 2008	23 Sep	0.21% of EUR (spot ref 3.2964, ATMF ref vol 9.5%)	--	--			
Long equal weighted 6m forwards basket of long KWD and AED vs short USD with expiry 17 Feb 2009 (spot ref USD-KWD 0.276, USD-AED 3.6735)	12 Aug	100 (6m fwd USD-KWD 0.2761, USD-AED 3.6620)	103	98.5			

Source: Bloomberg, Merrill Lynch

Note: The equity allocation is set such that a 6-sigma movement in the trade against our recommendation (ie, six times the standard deviation of the total returns of the trade) would not wipe out more than 20% of the equity. The correlation between our trades is assumed to collapse to zero under stress condition. This assumption makes the value-at-risk (VAR) of the portfolio more conservative. The total VAR amounts to 20% of the equity allocated to trade recommendations. The leverage is calculated by the ratio between notional and equity. All quotes in the Asian time zone are at close on the open day, for the other time zones the quotes are at 11am New York Time (4pm London). For EXD portfolio methodology and details of the calculations refer to "New EXD discretionary portfolio," *EM Debt Strategy*, 11 March 2008, "Introducing Local Markets," *Local Debt Markets Strategist*, 27 October 2005, and "Our LDM portfolio is one", *Cause & FX*, 20 October 2006. A complete performance record is available upon request. The performance does not reflect tax withholdings and investors should note that their costs may vary. Past performance does not guarantee future returns. **ROE values as of two days prior to the publication date.

Trade	Entry date	Entry price	Target	Stop	Equity (USDmn)	Notional (USDmn)	Leverage
EXD long-only portfolio							
Overweight	Peru, Indonesia, Iraq						
Market Weight	Argentina, Brazil, Ecuador, Jamaica, Lebanon, Mexico, Panama, Uruguay, Venezuela						
Underweight	Colombia, El Salvador, Philippines, Russia, South Africa, Turkey, Ukraine						

Global macro discretionary portfolio

Global macro discretionary portfolio (as of 5 November 2008)

Trade	Entry date	Entry price	Target	Stop	Capital (US$ mn)	Notional (US$ mn)	Leverage
Developed Rates							
Long UK 5y real rates	16-Oct-08	2.97%	2.50%	3.30%	4	14	3.5
US 2s10s government bond steepener	5-Nov-08	Slope:248bp	Slope:300bp	Slope:220bp	4	34	8.5
EM Local Debt							
Chile: pay 3y CLP vs. Camara swaps (expiry 31-Oct-11)	28-Oct-08	3y: 7.05%, Camara: 8.25%	8.00%	6.50%	4	18.7	4.7
EM External Debt							
Buy Korea 5y CDS	4-Nov-08	260bp	500bp	150bp	4	13.3	3.3
Commodities							
Short Jun 2009 ICE Gasoil crack spreads	8-Oct-08	$23.04/bbl	$15/bbl	$30/bbl	4	17.7	4.4
Credit							
A 5vs10 DV01-hedged steepener on the iTraxx Financials Senior index	28-Oct-08	5y index spread 111bp, 10y index spread 111bp	Slope:+10bp	Slope:-15bp	4	40	10
Foreign Exchange							
Long TRY-ZAR (i.e., short USD-TRY and long USD-ZAR)	03-Nov-08	TRY-ZAR 6.3934 (USD-TRY 1.5465, USD-ZAR 9.8875)	6.70	6.35	4	11.5	2.9
Short GBP-JPY	5-Nov-08	GBP-JPY 160.42	132	166	4	8.9	2.2

Portfolio and risk allocation

	US$ mn	Percent of total
Total investment capital	50	100%
Cash	14	28.0%
Total investment capital allocated	36	72.0%
VaR (6σ)	7.2	

Source: Merrill Lynch *Global Macro Portfolio* (5 November 2008).

Note: The investment capital allocation is set such that a 6-sigma movement in the trade against our recommendation (ie, six times the standard deviation of the total returns of the trade) would not wipe out more than 20% of the capital of each trade. Given we assume away diversification benefits from running multiple trades, this makes the value-at-risk (VAR) of the portfolio more conservative. The total VaR amounts to 20% of the capital allocated to trade recommendations. The leverage is calculated by the ratio between notional and capital. All quotes are at 11am New York Time where prices are available or as soon as prices are available thereafter.

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Emerging EMEA macro scorecard

Table 21: Emerging EMEA ML cross-asset class macro scorecard †

Updated:	Exchange rate		Fixed income		Equity	
06/11/2008	Score*	Comment	Score*	Comment	Score*	Comment
Czech Rep.	4.5	Strong growth; flat-to-improving C/A	5.5	FX strength-driven monetary easing	3.5	Solid, though weakening, economic growth
Hungary	2.0	Economic downturn; improving "twin deficits"	5.0	Uncertain monetary policy outlook	2.0	Domestic demand still in a de facto recession
Israel	5.0	Moderating growth; sound C/A balance	5.0	ILS strength; positive carry; CPI to fall	4.5	Moderating growth; FDI and M&A activity
Poland	4.5	Solid growth; rising C/A deficit, high inflation	3.0	Monetary tightening bias	5.5	Domestic demand strong, albeit moderating
Russia	8.5	Economic boom, twin surpluses, capital inflow	2.5	Fiscal and monetary easing	8.5	Strong exports, investment and consumption
Romania	4.5	Overheating; 14% of GDP C/A deficit	1.0	Monetary tightening likely to continue	6.0	Domestic demand is booming at record high
Slovakia	4.5	Economic boom; high (but falling) C/A deficit	2.0	Monetary policy stance neutral	5.5	Booming exports; solid domestic demand
Sth Africa	3.0	Large C/A deficit; vulnerable to risk aversion	2.5	High inflation, but rates have peaked	3.5	Slowing demand, risk to commodities prices
Turkey	3.0	Lower growth, high financing need, weak FDI	3.0	High real yields; rising CPI; tightening cycle	3.5	Strong medium-term growth potential

Source: Merrill Lynch. †ML macro scorecard for a given asset class, where 0 denotes the lowest (worst) and 10 denotes the highest (best) score.
Note: ML scorecard results may differ from ML actual forecasts/strategy recommendations. *See Annex 1 for methodology.

According to our ML macro scorecard†, emerging EMEA macroeconomic backdrop is generally mixed-to-positive for equities and FX, and negative for fixed income.

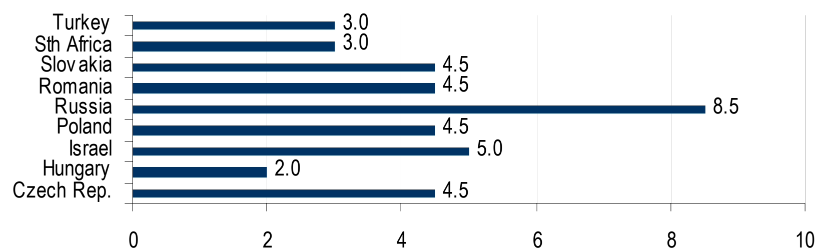
(1) Exchange rate: Russia has the strongest FX-relevant macro fundamentals in Emerging EMEA, while Hungary, Turkey and South Africa score the worst.

(2) Fixed income: the Czech Republic, Hungary and Israel have (relatively) the most favourable macro environment from the fixed income perspective, while Romania scores the worst.

(3) Equity: Russia has the most favourable macro environment from the equity perspective – followed by Romania and Poland, while Hungary scores the worst.

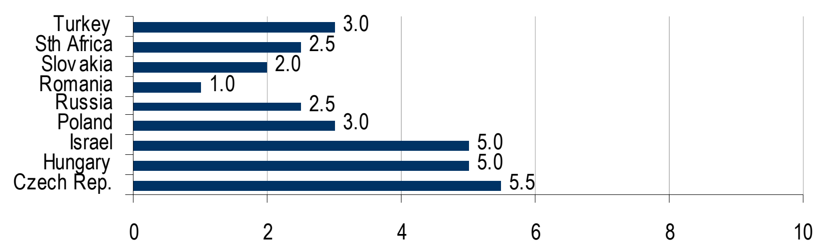
†Note: ML macro scorecard is a purely macro/fundamental metric and hence its results may differ from the ML actual forecasts/strategy recommendations. See Annex 1 for details/methodology.

Chart 61: ML macro scorecard – exchange rate*



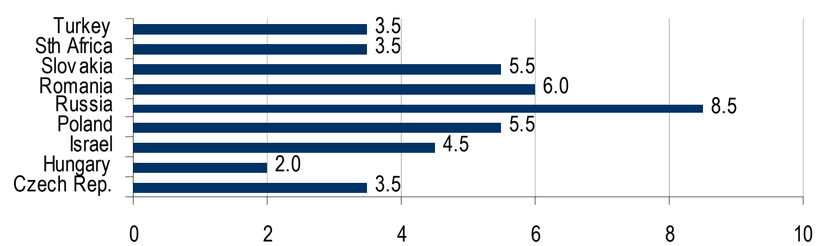
Source: Merrill Lynch. Note: ML scorecard results may differ from ML actual forecasts/strategy recommendations. *See Annex 1 for methodology.

Chart 62: ML macro scorecard – fixed income*



Source: Merrill Lynch. Note: ML scorecard results may differ from ML actual forecasts/strategy recommendations. *See Annex 1 for methodology.

Chart 63: ML macro scorecard – equity*



Source: Merrill Lynch. Note: ML scorecard results may differ from ML actual forecasts/strategy recommendations. *See Annex 1 for methodology.

Annex 1: ML simple cross-asset class macro scorecard (methodology)

ML cross-asset class macro scorecard is a simple, questionnaire-based framework aimed to provide a synthetic metric allowing to assess a country's absolute/relative macroeconomic performance relevant for a given asset class.

To assess economic environment for a given asset class (fixed income, equity, FX) we ask and answer 10 questions, which we believe best illustrate economic performance relevant for a given asset class. The answers ("yes" or "no") are then translated into numeric scores (from 0.5 to 1.5 points – dependent on their perceived relevance). The sum of all scores gives an overall score (in a 0-to-10 range), where *0* is the lowest (worst), and *10* is the highest (best) score for a given asset class (see Emerging EMEA macro scorecard for results).

Note: The ML scorecard is designed as a purely macroeconomic/fundamental metric and hence it may differ from both actual forecasts and actual strategy recommendations, which take into account also other factors (for ML strategy recommendations see Emerging EMEA strategy recommendations).

Table 22: ML cross-asset class macro scorecard questionnaire

I. Simple FX-related economic performance check-up:	
1) Is growth above potential / long-term average?	yes / no
2) Is current account balance improving and / or "not a concern"?	yes / no
3) Is central bank in the tightening cycle / mode?	yes / no
4) Is NEER or REER perceived as undervalued and/or >1StDev weak to 2-year avg.?	yes / no
5) Is exports growth above main trading partner's imports growth?	yes / no
6) Is BoP's total (EQTY and FI) portfolio investment outlook unambiguously positive?	yes / no
7) Do FDI cover majority of C/A deficit and / or outlook is positive?	yes / no
8) Is wage growth below labour productivity growth?	yes / no
9) Is fiscal policy expansionary (deficit rising / surplus falling on increased spending)?	yes / no
10) Are at least 5 of the above "yes"-factors sustainable in 12-month horizon?	yes / no
II: Simple fixed income-related economic performance check-up:	
1) Is growth below potential / long-term average?	yes / no
2) Is inflation below inflation target or clearly on track to the target?	yes / no
3) Is central bank in the easing cycle?	yes / no
4) Is FX level "not a concern" (ie, safe) for inflation and / or outlook is positive?	yes / no
5) Is nominal rates differential over ECB positive and / or improving?	yes / no
6) Is real rates differential over US above the long-term average?	yes / no
7) Is BoP's fixed income portfolio investment outlook positive?	yes / no
8) Is money supply and / or private credit growth below nominal GDP growth?	yes / no
9) Is fiscal policy contractionary (deficit falling / surplus rising on reduced spending)?	yes / no
10) Are at least 5 of the above "yes"-factors sustainable in 12-month horizon?	yes / no
III: Simple equity-related economic performance check-up:	
1) Is growth above potential / long-term average?	yes / no
2) Is growth driven mainly by domestic demand?	yes / no
3) Is wage growth below labour productivity growth and / or PPI inflation?	yes / no
4) Is GDP growth differential over Eurozone above the long-term average?	yes / no
5) Is BoP's equity portfolio investment outlook positive?	yes / no
6) Is current (trailing) real interest rate below the long-term average?	yes / no
7) Is real disposable income & credit growth above the long-term avg. and/or GDP growth?	yes / no
9) Is fiscal policy expansionary (deficit rising / surplus falling on increased spending)?	yes / no
9) Is outlook for FX and / or FI unambiguously positive?	yes / no
10) Are at least 5 of the above "yes"-factors sustainable in 12-month horizon?	yes / no

Source: Merrill Lynch

Annex 2: Monetary conditions (MCI)

Monetary Conditions Index (MCI) is generally defined as a weighted combination of short-term real interest rates and the real exchange rate, with weights on interest rate and exchange rate being a function of openness of the economy.

We adopt the following definition of the MCI:

$$MCI_t = MCI_{t-1} * \left[1 + r_t - r_{t-1} + a * \log\left(REER_t \div REER_{t-1}\right)\right]$$

where; *r* – 3-month real interest rate (CPI/HICP inflation-adjusted), *REER* – broad real effective (trade-weighted) exchange rate (BIS measure), *a* – the average of exports and imports-to-GDP ratio (time-varying, monthly interpolated).

Annex 3: Neutral interest rate

The neutral/equilibrium real interest rate is defined as the real interest rate level, which in the medium-term is consistent with a closed output gap (GDP growth at potential) and stable inflation. In other words, inflation pressure should rise/fall as long as the *actual* real interest rate (a function of the policy rate and inflation dynamics) deviates downwards/upwards from the *neutral* interest rate level. This makes the neutral real interest rate an important benchmark for monetary policy. The neutral/equilibrium real interest rate is an “unobservable” variable and thus needs to be estimated / is subject to estimation uncertainty.

(1) Simple growth models suggest that the neutral/equilibrium real interest rate should be roughly equal to the potential/equilibrium real GDP growth.

(2) The neutral real interest rate can also be approximated by the long-term average real interest rate in a period when inflation was relatively stable.

In the long-run these two approaches should produce roughly similar results as potential GDP growth/marginal return on capital should be close to real interest rate, with the exception of periods of structurally tight or lose monetary policy. To cancel out any potential structural monetary policy bias we have taken the mean of the above two measures to come up with the neutral interest rate proxy. This simple approach should control for periods of expansionary/restrictive monetary policy bias, which may overstate/understate neutral rate proxy based on potential growth trend (1), but at the same time understate/overstate neutral rate proxy based on the long-term real interest rate mean (2). In addition, to minimize any potential mismeasurement error; (a) potential GDP growth was estimated by taking the average of the long-term average, long-term median and Hodrick-Prescott filter (with λ=1600 and λ=25000), while (b) the long-term real rate was calculated as a mean of CPI-adjusted and core inflation-adjusted policy rate.

Note: It needs to be noted that for small, open economies, where exchange rate plays an important role in monetary policy the above approach to estimate neutral interest rate may be less robust and the assessment of actual vs. neutral policy rate needs to be “adjusted” for the exchange rate dynamics.

NB. For an in-depth discussion on the neutral interest rate refer to Poland: Taylor rule suggests 6-7% rate, 10 August, 2007).

Important Disclosures

Due to the nature of strategic analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Merrill Lynch fixed income analysts regularly interact with Merrill Lynch sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

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