



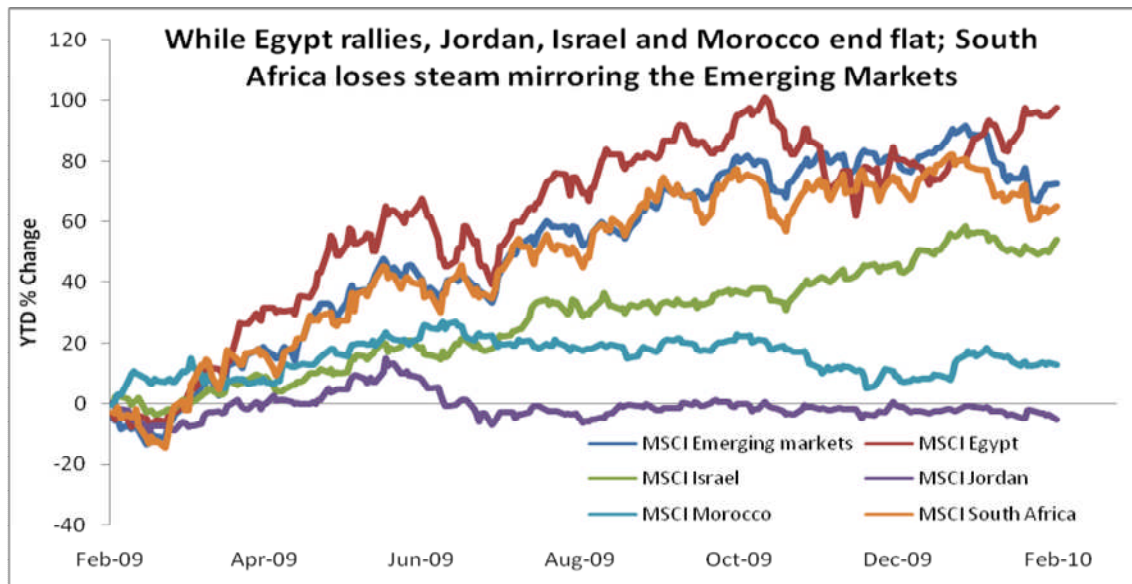
Middle East and Africa: Economic Review February 2010

Economies of the Middle East performed well in the fourth quarter, particularly Israel and Egypt. Israel's GDP increased by 4.4%, and Egypt grew by 5.1%, mostly due to the recovery of tourism in both countries. Tourism was also on the rise in Morocco, with the economy expanding by 5.8% in the fourth quarter.

South Africa continued on its path of growth, which began in December 2009. Manufacturing output improved considerably and the country's trade deficit narrowed, easing much pressure in the struggling economy. Meanwhile, Jordan recorded a slump in its trade deficit and a tightening of its money supply.

At a Glance

- **South Africa:** The largest economy in Africa is eagerly awaiting its next budget, which is expected to unveil new spending initiatives. Improvements in manufacturing have already put the country on a growth track.
- **Israel:** GDP expanded 4.4% in the fourth quarter of 2009, the fastest rate in two years. Now the economy is expected to grow at 3.5% this year, compared to the previous forecast of 2.5%.
- **Egypt:** Egypt's economy grew by 5.1% in the fourth quarter of 2009, underscoring the promise for future growth. The government has pegged its 2010 growth rate at 5.5%.
- **Morocco:** Morocco's economy developed by 5.8% in the fourth quarter. The country has now received the heaviest rains in three decades, which will give a boost to agriculture, one of its most important sectors.
- **Jordan:** The country's trade deficit dropped by 14.8% in 2009, as imports of steel and oil decreased. Money supply growth plunged to 9% in 2009 from a high of 17% in 2008.



South Africa: Economy continues on growth path

South Africa's walk to recovery, which began in December 2009, seems to be gathering pace. The country's economy expanded at an annualized 0.9% in the three months through September. The Bureau of Economic Research (BER) expects the African nation's growth spurt to continue into the first quarter of 2010, mainly due to an improvement in net exports. BER commented that their growth estimate for this year is 2.7%, much above the government's expectations of 1.5%.

The 2010 budget, soon to be unveiled, is awaited eagerly as it is expected to provide a major fillip to the economy with new spending policies. President Jacob Zuma has already pledged to spend \$109.8 billion to improve infrastructure and education over the next three years. Yet, finance Minister Pravin Gordhan must spend wisely and walk the tightrope between addressing recessionary damage and spurring the economy. The South African economy has long prided itself on its prudent fiscal measures and Gordhan is under tremendous pressure to try and maintain that reputation while simultaneously lifting the economy up from unemployment and poverty.

In December, **manufacturing output grew by 3.2% year-on-year** in volume terms compared with a revised 4.6% shrinkage in November. This is good news for this economic powerhouse, which depends on manufacturing to a large extent. The Purchasing Managers Index (PMI) reached 53.6 points in January, a gain for the sixth straight month and its highest level in 21

months, an indication that manufacturing is awakening from its slumber. Manufacturers are stepping up inventories as global demand has begun to show signs of life.

The rise in the PMI seems to be easing employment problems as well. Andre Coetzee, head of fixed income at Kagiso Securities confirms that “the level of the index suggests an improved outlook for factory job creation at the start of 2010.” The employment sub-index climbed 3.7 points to 51.9, reaching above the 50 point mark for the first time since April. For South Africa, a country with an alarming jobless rate of 24.5%, this is indeed reason for cheer.

Also encouraging, South Africa’s trade deficit narrowed sharply in 2009 compared to the previous year. The economy actually posted a trade surplus, mainly due to a reduction in imports and the recession. The South African Revenue Service announced that the trade deficit shrank to \$3.42 billion in 2009 from \$9.35 billion in 2008. Imports slumped 14% in December resulting in the surplus, which amounted to \$489 million.

However, private sector demand for credit slipped for the third consecutive time in December, indicating that industry and consumer spending is sluggish. Credit demand slackened by 0.76% year-on-year in December after a larger contraction of 1.59% in November. Economists at the Standard Bank pointed out, “Indebtedness and past reckless spending have started to catch up to the consumer.”

In December, producer prices inched up by 0.7% for the first time in eight months, after falling 1.2% in November. Producer Price Inflation (PPI) was mainly driven by the rising prices of oil, metals and agricultural products.

Subsequently, Consumer Price Inflation (CPI) jumped up 6.3% in December, rising for the first time beyond the central bank’s target range of 3% to 6%. But electricity tariff increases threaten to push inflation further according to central bank governor Gill Marcus. If state-owned power utility Eskom Holdings prevails, there will be an annual price increase as great as 35% over the next three years. However, BER predicts a drop in inflation to below 6% from February 2010. Although BER economist Hugo Pienaar expresses concern over the impending electricity tariff hikes, he says that the acceleration of inflation is “temporary with a renewed - and importantly, sustained - fall below 6% expected from February 2010.”

The MSCI South Africa Index decreased by 2.42% for the month ended February 15.

Israel: GDP increased by 4.4% in fourth quarter

The Central Bank noted that Israel's GDP expanded by 4.4% in the fourth quarter of 2009, which is the fastest rate in two years. This rise in the GDP follows a 3% increase in GDP in the third quarter. On this positive note, the Bank promptly raised its growth forecast for this year to 3.5% from 2.5% predicted in January. GDP grew at 0.5% for the year 2009 to \$203 billion.

The growth was aided by a surge in exports as the country continues to revive from the global financial crisis. Exports, which account for a major portion of Israel's revenues, shot up 33% in the fourth quarter. Rough and polished diamond exports, a major component of overall exports, increased 38% to \$866.1 million, while polished diamond exports soared by 84% in January.

Due to an increase in imports, Israel's **trade deficit widened further for the second consecutive month, to \$580.8 million in January from \$488.6 million in December.** Overall imports, primarily raw materials and consumer goods, stood at \$4.5 billion; while exports totaled \$3.9 billion in January. The trade deficit stood at a seasonally adjusted \$841 million compared with \$683 million year-on-year.

Meanwhile, the CPI dipped to 3.8% in January, above the government's target range of 1% to 3%. January's CPI fluctuation was primarily due to a sharp 10% drop in the price of clothing and a 5.9% fall in the cost of vegetables, among other factors. Consumer confidence rose by three points in January to 95.8 after a drop of 1.1 points in December.

Tourism reached an all-time record high in January, increasing 62% year-on-year. This bodes well for Israel, which is trying to attract one million more visitors per year for the next three years.

Foreign currency reserves recorded a 44.9% rise from \$42.51 billion at the end of 2008 to \$61.6 billion by the end of January. This is \$986 million more than in December 2009 due to the central bank's purchasing of foreign currency.

The MSCI Israel Index increased 2.15% for the month ended February 15.

Egypt: Economy expands at its fastest in a year

Egypt's economy expanded at its fastest pace in more than a year, growing by 5.1% in the fourth quarter of 2009, up from 4.9% the previous quarter. Osman Mohamed Osman, the Economic Development Minister, commented that tourism, construction and manufacturing were the prime

sectors behind this speedy upturn. Confident that Egypt had “turned a corner,” Osman predicts a 5.5% rate of growth for the economy in the coming months.

Tourism shot up by 13% in the fourth quarter while manufacturing grew 5.2% along with construction, which rose by 11.5%. In contrast, tourism recorded a decline of 2% in 2009 earning US\$10.76 billion, while tourist arrivals fell 2.3% to 12.5 million visitors. But with the upward climb in tourism in 2010, the government has targeted 6.9% growth in 2010 with an aim to attract 14 million tourists. Tourism accounts for 12.6% of jobs and 11% of Egypt’s GDP.

Traffic through the Suez Canal accounts for 4% of Egypt’s GDP and the Suez Canal Authority reported a dip of 20.3% year-on-year in transit revenues for 2009 due to the global financial crisis. An increase in traffic is expected in 2010, and indeed, Suez Canal traffic climbed 8% year-on-year in January with 1,418 vessels passing through the canal compared to 1,313 in January 2008.

Headline CPI edged up 0.8% month-on-month bringing urban annual consumer price inflation to 13.6% in the year to January. The increase can be attributed to a rise of 24% in the prices of food and beverages, which account for more than 40% of the inflationary basket components. Meanwhile, core inflation went up 0.99% month-on-month, bringing the annual rate up to 7.3% from 6.8% in December.

Plans are on the anvil to double exports in the next four years from \$16.7 billion to \$36.4 billion, an effort to maintain the economy’s growth rate at around 7% per annum. According to trade minister Rachid Mohamed Rachid, the goal is to “improve the quality of production of local manufacturers and to increase competitiveness and open new markets for Egyptian goods.” As well, the government wishes to create additional opportunities for private investors in sectors such as infrastructure. The next step will be to utilize trade agreements, and provide funding and land to step up investments and export levels. Prime Minister Ahmad Nazif pointed out that, “The indicators so far are encouraging; tourism is a good example of that.” Non-oil exports also showed promise, rising to \$4.67 billion from \$3.73 billion in the last three months of 2009.

The Egyptian government has set a target to attract \$10 billion worth of foreign direct investments (FDI) during this fiscal year. Already buoyed by robust exports, a spurt in FDI will quicken economic recovery. The government is eyeing Asia for additional investments, particularly from China, India, Malaysia and Singapore.

But due to the lingering effects of the world economic crisis, Egypt may have to postpone for another two years its goal to bring down the trade deficit to 3% of the GDP by 2012. The budget deficit widened as the revenue to spending ratio narrowed. Egypt’s deficit for the last six months in 2009 stood at 4.9% of the GDP, as government spending decreased by 7%. Revenues slid faster at 25.8% as the deficit rose, pointing to a slowdown in local economic activity. The drop in total expenditures was mainly due to a 45.8% decline in spending on subsidies, as global food and energy prices tumbled from peak pre-crisis levels.

Fuel subsidies are expected to climb to \$12 billion in the current fiscal year through June. This is an effort to help the neediest, in a country where a fifth of the 78 million strong population lives on less than \$1 a day. Various subsidy programs including fuel and other commodities drained the government coffers by around \$19 billion in 2008.

The MSCI Egypt Index increased by 5.98% for the month ended February 15.

Morocco: Economy registers 5.8% growth in fourth quarter

Morocco's economy expanded 5.8% in the fourth quarter of 2009 but still remained weak in the wake of the global financial crisis. However, the country was blessed with the strongest rains in 30 years, a boon to its agricultural sector. With wheat being the biggest crop, farming is one of the primary sources for jobs for Morocco's 32 million people, accounting for 15% of the nation's GDP. With agriculture improving and consumer spending increasing, the economy can expect an overall growth of 5% in 2010, according to the government.

To aid the economy in its development, the World Bank granted Morocco a loan from amounting to \$15 million. The agreement between the Moroccan government and the World Bank promises to support government efforts to promote long-term savings, strengthen financial supervision and maintain the stability of the financial sector. Apart from that, the World Bank is planning to double its loan amounts to Morocco to \$2.4 billion through 2013. Economic Affairs Minister Nizar Baraka commented that, "The World Bank will increase its loans to Morocco to \$600 million per year for the 2010-2013 period, from \$300 million annually, in the previous years as a signal of the credibility of its development program and reforms."

Morocco attracted 8.7 million visitors last year, 7% more than a year earlier. Despite the rise in tourist numbers, income from tourism still dipped 5.7% due to a decline in spending. The government has set a goal to increase the number of visitors to 10 million this year and double tourism growth to 10%.

FDI is expected to reach \$5 billion in 2010 after dipping to \$3 billion in 2008, and \$2.27 billion in the first nine months of 2009. Things are looking up for Morocco as foreign companies, such as BNP Paribas, France's largest bank, are showing increased interest.

Meanwhile, the trade deficit shrank by 10.4% in 2009 compared to 2008, as imports plunged 19% due to falling energy prices. Imports dipped to \$31.8 billion as energy purchases slid 25%. Morocco's oil bill alone registered a huge drop of 44% year-on-year due to a decrease in oil prices. Exports fell by 28% to \$13.5 billion, on the back of steep drops in the prices of phosphoric acid and phosphate fertilizer, one of the main sources of foreign currency for

Morocco. The trade gap amounted to \$18.3 billion in 2009, less than \$20.5 billion in 2008. Trade suffered heavily, especially with recession hit Europe, a key market, as consumers cut back spending and factories slashed output.

Unemployment tumbled to 9.1% in 2009 from 9.6% in 2008, mainly due to growth in the service and construction industries. In the fourth quarter of 2009, the unemployment rate stood at 9%, a fall from 9.8% in the third quarter. More jobs were lost in 2008 as labor intensive industrial sectors suffered due to recession-torn European markets. With demand creeping back, 78,000 jobs have been created in services and around 62,000 in construction.

The MSCI Morocco Index dipped 0.94% for the month ended February 15.


Jordan: Trade deficit declines by 14.8% in 2009

Jordan's trade deficit was trimmed by 14.8% in 2009 as imports of steel, machinery and oil decreased. The Kingdom's deficit declined to \$7.7 billion from \$9 billion in 2008. Jordan's crude oil imports plunged by 42.6%, while steel imports dropped 24.5% and machinery fell by 30.5%. Overall imports declined by 17.1%. Exports decreased 19.8% in 2009 mainly due to a 49.3% slump in fertilizer shipments and a 42% fall in potash exports.

Money supply growth plunged to 9% in 2009 compared to a high of 17% the previous year, as bank lending slowed due to the financial downturn. Money supply, measured as M2, rose to 2008 high levels, fueled by ballooning inflation as oil and commodity prices soared. Domestic bank credit, a component of M2, dropped 1.5% in 2009 for the first time in 10 years as commercial banks tightened their credit policies.

Foreign currency reserves swelled by 41.5% in 2009, standing at \$10.9 billion compared to \$7.7 billion a year earlier. The jump in reserves is mainly due to low demand on imports, remittances from workers abroad and foreign aid.

Tourism, meanwhile, registered the fourth highest increase among Middle Eastern countries in 2009. According to the United Nations World Tourism Organization (UNWTO), Jordan recorded a 1.6% growth in tourism.

The MSCI Jordan Index declined by 1.95% for the month ended February 15. 

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