



Middle East and Africa: Economic Review January 2010

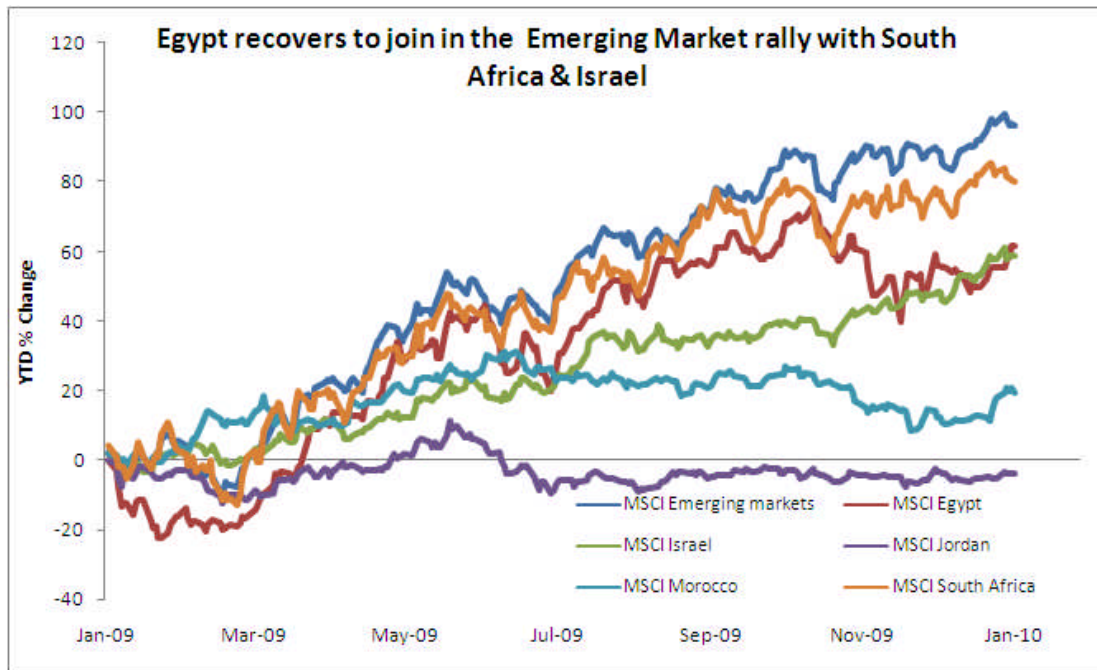
South Africa continued to send positive signals of recovery as the decline in the country's manufacturing output slackened. Growth, which has remained elusive for so long, touched South Africa's economy in the three months since September due to higher production of petroleum, chemical and plastic products.

Meanwhile, Israel raised its interest rate for the second consecutive time by 0.25%, as the economy marched towards recovery. Israel exhibited a remarkable 3% growth in the third quarter although inflation remains at 3.9%, above the government's target range.

Egypt, on the other hand, is trying to flush out the vestiges of recession with a third stimulus package, while Morocco is expected to grow at a slower pace.

At a Glance

- **South Africa:** Africa's largest economy continued on its path of recovery as manufacturing decline slowed and factory production shrank 4.7% year-on-year compared to 9.6% in October.
- **Israel:** The central bank pushed up its interest rate a second time by 25 basis points to 1.25% as Israel's economy continued on an upward trajectory.
- **Egypt:** A third stimulus package worth \$2.06 billion was proposed by the Egyptian government to boost economic growth.
- **Morocco:** The economy is expected to grow at a slower pace of 4.1% in 2010 compared to 5% in 2009.
- **Jordan:** The trade gap narrowed for the first time in ten months by 21.5% to \$6.2 billion.



South Africa: Manufacturing decline rate slows

Africa's largest economy continued to send strong signals of recovery with the rate of decline in manufacturing output easing. Factory production shrank 4.7% year-on-year in terms of volume in November compared to a revised fall of 9.6% in October. South Africa's economy limped back to growth in the three months since September, as manufacturing increased by an annualized 7.6% at the end of the third quarter. The improvement occurred thanks to higher production of petroleum, chemical and plastic products along with basic metals. "The worst is behind us as far as manufacturing is concerned. From about the second quarter of next year, you may see the economy recovering quite strongly," says Rian le Roux, chief economist at Old Mutual Investment Group in Cape Town.

South Africa's manufacturing sector recovery also depends on the movement of exports. **In 2008, 35% of South Africa's output was exported, yet, by the third quarter of 2009, exports had fallen to 26% of the GDP.** With exports taking a beating on receding global demand, manufacturing output catering to these exports was also hampered. As well, manufacturing has been inhibited by the rand, which has appreciated 28% against the dollar and 19% against the euro since early 2009.

Trade activity declined for the first time since September, touching its lowest level in December. The South African Chamber of Commerce and Industry's (SACCI) trade index, which includes wholesale, retail and export trade, dipped to 42 from 51 in November, reflecting steep falls in

sales volumes and placement of new orders. Retail sales plunged 6.5% in the year to October compared to a 4.9% fall in September.

The MSCI South Africa Index fell marginally by 0.91% for the month ended January 15.

Israel: Central bank makes second rate hike

Even as other global economies continue to keep their rates low, the Bank of Israel has made a second consecutive rate hike, raising the interest rate for January by 25 basis points to 1.25%. The bank said that its decision was based on Israel's extremely positive growth in recent months and the fact that annual inflation has stayed above the government's target range, which is between 1% and 3%. The annual inflation rate for 2009 stands at 3.9%, which is slightly higher than the 3.8% figure registered in 2008.

Israel's growth is reflected in its **GDP, which expanded at an impressive rate of 3% during the third quarter** and climbed a notch by 0.5% for the year 2009. The composite state of the economy index, which measures various components including foreign trade and manufacturing, has been on a steady uptick for the past six months. The index edged up by 0.6% in November boosted by an increase in manufacturing production, trade and services revenue, and imports.

As a result, the forecast for 2010 has been revised upwards. GDP is now expected to register a 3.5% growth compared with 2.5% as previously predicted. The revised forecast is based on various factors, including an improvement in exports on the back of the recovery of world markets and an increase in domestic consumption. While world trade has jumped by 7%, public consumption in Israel has improved by 1%.

The unemployment rate, which stood at 7.7% for the year 2009, is expected to dip to 7.1% this year. On a positive note, the unemployment rate for the third quarter declined to 7.8% from 8% in the second quarter.

Meanwhile, Israel's trade deficit posted a remarkable plunge of 61% for the year 2009. In 2008, the country's trade deficit was a much higher \$13.2 billion. Israel's imports in 2009 were clocked at \$46.9 billion, a drop of 27.3% compared to 2008. Its exports stood at \$41.8 billion, which is 18.5% less than in 2008. That brings the trade deficit to \$5.1 billion, the lowest ever since 1990. If fuel, diamonds, ships, and aircraft are excluded, Israel actually registered a trade surplus of \$2.3 billion. High-tech exports, which account for 51.4% of total industrial exports, totaled \$20.5 billion in 2009, a rise of \$725 million from 2008. Exports of polished and rough diamonds took a sharp fall to \$5.8 billion in 2009 from \$9.6 billion in 2008.

The Purchasing Managers Index (PMI) leapt to 68.8 in November from 60.4 in October. This is the sixth consecutive month that the PMI has remained over 50, which is the border between economic expansion and contraction.

Foreign currency reserves totaled \$60.62 billion in December, around \$927 million less than November, which is the first monthly drop since February 2009. The Bank of Israel revealed that the drop was attributed to a revaluation of the reserves and also due to \$38 million in government transfers abroad.

Tourism registered a slide of 10% for the year 2009, yet with 2.7 million tourists landing on Israel's shores it was the second highest year for tourism to date. Encouragingly, December recorded 225,000 tourists, an increase of 11% year-on-year. The government is trying to boost tourism, targeting four million tourists by 2012, which would result in an expected \$5.01 billion in revenue. Tourism Minister Stas Misezhnikov said the government is looking to improve bureaucratic processes, enhance services and facilitate the availability of information for tourists.

The MSCI Israel Index increased 3.9% for the month ended January 15.

Egypt: Third stimulus package proposed

The Egyptian cabinet has proposed a plan to release a third stimulus package worth \$2.06 billion to promote economic growth. The very first package worth \$2.7 billion was introduced in October 2008 followed by a \$1.4 billion stimulus, which was brought out in June 2009. Aimed at funding infrastructure development projects, the third stimulus will be focused on water and water treatment projects. However, unlike the previous packages, which were drawn from the state budget, this third stimulus will be financed by the New Urban Communities Authority, with the inflow of money depending on the sale of plots of land. According to Magdy Sobhy, an economic expert at Al-Ahram Center for Strategic and Political Studies, it is the lack of private investment that has forced the government to take such a step.

Egypt did reasonably well in 2009 with most industry sectors turning out a good performance. However, Suez Canal activity declined by 1.5% and oil refining dipped by 3.2% for the first nine months of the year. Suez Canal revenues tumbled 0.5% in December to \$390 million year-on-year. However, this is an increase from the \$365.5 million registered in November. The canal, which is one of the most important sources of tourism, oil and gas exports and remittances from Egyptians living abroad, brought in revenues that reached \$2.3 billion in the first half of the fiscal year 2009-2010 compared to \$2.7 billion in the same period last year. The construction and communication sectors outperformed, recording a growth rate of 11.6% and 15.0%

respectively. **As exports pick up, Egypt is targeting a growth rate of 5% for the year 2010, slightly higher than last year's growth of 4.5%.**

Meanwhile, public debt touched \$127 billion for the first time in Egypt's history according to the Ministry of Finance. Government debt rose to 58.5% of the GDP compared to 54.9% of the GDP in 2008. "The problem is the government is still running a high fiscal deficit. There is little prospect of debt ratios falling unless the government cuts its borrowing and reduces deficits," explained Simon Kitchen, economist at EFG-Hermes investment bank. The figure will improve if GDP expands and the government collects higher tax revenues, he added.

The Consumer Price Index (CPI) declined by 1.3% month-on-month in December largely due to a fall in the price of fruits and vegetables, whose high price tags have been the primary drivers of inflation since February 2009. However, the annual headline inflation rate has stayed at 13.3% for the third consecutive month while core annual inflation crawled up from 6.59% to 6.85% from November to December. The government's target for core inflation falls between 6% and 8%.

The MSCI Egypt Index gained 7.92% for the month ended January 15.

Morocco: 4.1% growth in the economy expected

The Moroccan economy is expected to grow at a slower pace of 4.1% in 2010 compared to 5% in 2009, according to High Planning Commissioner Ahmed Lahlimi Alami. However, non-agricultural sectors are anticipated to expand at 5.9% this year compared to 1.6% in 2009 as international economies recover. The agricultural sector is expected to grow at 5.3% this year compared to 26.2% in 2009, which was an exceptionally profitable year, observed Alami. A 3% increase in foreign demand is projected while a drop of 5.4% is likely in domestic demand. But the Moroccan economy showed a healthy growth of 5.6% in the third quarter, as farm incomes swelled and global economies showed signs of recovery.

Morocco's oil bill totaled \$1.8 billion in the year to November, which is a steep plunge of 51.1% year-on-year. This decline can be attributed to lower quantities imported as well as easing oil prices in the international market. Imported crude oil volume stood at 4.2 million tons in November compared to 5.22 million tons at the same time last year. Simultaneously, imports of energy products declined by 30.8% and accounted for 20.2% of total imports in November compared to 23% in November 2008.

The production index of manufacturing industries rose 2.1% in November compared to October, partly due to a 9.4% increase in oil refining.

Tourism saw a 6% spike in 2009 compared to 2008, with roughly 8.3 million visitors entering Morocco. Tourism Minister Yassir Znagui revealed that this important sector contributed to 9% of the country's GDP and provided employment for 420,000 people. Encouraged by 2009 figures, Morocco is aiming to bolster income from tourism by attracting 10% more visitors in 2010. "We have a strong desire to gear Morocco towards sustainable tourism, respect for the environment and a top quality tourism product," said Znagui.

The MSCI Morocco Index advanced 5.89% for the month ended January 15.

Jordan: Trade gap narrows for first time in ten months

In Jordan, the trade gap narrowed by 21.5% in the first ten months of 2009 to \$6.2 billion compared to \$7.9 billion year-on-year. Exports showed a decline of 20% in 2009 as demand continued to be subdued and competition from other countries heated up. To counter this problem, Jordan is focusing on new markets in countries such as Algeria, Libya, Yemen, Sudan and Iraq.

Although the Kingdom of Jordan has navigated away from the eye of the financial storm, it has not completely escaped its effects, which are anticipated to ripple into 2010. Growth is likely to be slowed down by a drying up of liquidity, a slackening in business activity and a widening gap between state revenue and expenditure. Unemployment in Jordan has added to the country's woes by edging up to 12.9% in 2009 compared to 12.7% in 2008.

The country's net foreign reserves jumped 40% to a record high of \$10.87 billion at the end of December year-on-year. Jordan's reserves had touched \$7.78 billion at the end of 2008 and have steadily increased.

Meanwhile, Central Bank governor Umayya Toukan was selected as Central Bank Governor of the Year 2009 by *The Banker* magazine for his efforts in keeping Jordan's monetary condition relatively stable. A team from the International Monetary Fund (IMF), visiting Jordan in December, also commended the Central Bank's prudent use of liquidity infusions and rate cuts to combat the global economic crisis.

The MSCI Jordan Index rose 1.39% for the month ended January 15 . 

Thomas White International, Ltd.

One Financial Place,
440 South LaSalle Street,
Suite 3900,
Chicago, Illinois 60605.
Email: feedback@thomaswhite.com

Thomas White India Pvt., Ltd.

Suite 300, 3rd Floor
Phoenix Towers
16/1 Museum Road
Bangalore 560001
Tel.: 91-80-40187777

www.thomaswhite.com