UBS

Global Economics Research

EMEA Emerging

London

UBS Investment Research

EMEA Economic Perspectives

EMEA Economics – Outlook 2012

14 November 2011

www.ubs.com/economics

Reinhard Cluse
Economist
reinhard.cluse@ubs.com
+44-20-7568 6722

Gyorgy Kovacs
Economist
gyorgy.kovacs@ubs.com
+44-20-7568 7563

Marie Antelme
Economist
marie.antelme@ubs.com
+27-21-431 8649

Jennifer Miller
Associate Economist
jennifer-l.miller@ubs.com
+44-20-7568 6585

Emerging EMEA in a challenging global economic environment

We expect slow growth in the developed world in 2012/13, with a recession in the euro zone in 2012, subdued inflation, accommodative monetary policy, and a strong dollar. This scenario will provide a challenging environment for emerging EMEA that will only allow for unimpressive growth rates. After 4.5% growth in 2010 and an expected 4.2% in 2011, we expect real GDP growth to slow to just 3.0% in 2012, before accelerating again to 3.8% in 2013.

Wide dispersion in EMEA growth in 2012/13, but mostly unimpressive

We expect impressively high 2012 GDP growth rates only in Nigeria (6.7%) and Kazakhstan (5.5%). Elsewhere, growth rates are likely to be much more moderate, at 2.5-3.5% (Russia, Poland, Ukraine, South Africa, Egypt) or even weaker, at 0.5-1.0% (Hungary, Czech Republic). Turkey should be somewhere in the middle, at 2.0%, but we see the risk of a much weaker outcome. Generally, amid a weak external environment, countries with resilient domestic demand are likely to grow faster than very export-dependent ones.

Our EMEA forecasts are well below consensus

Our 2012 GDP forecasts are below consensus, in many cases quite substantially. We believe the consensus forecasts for emerging EMEA have not yet adjusted sufficiently for the worsened euro zone growth outlook. In the bigger EMEA countries, such as Russia, Turkey, South Africa, Poland and Hungary, our 2012 forecasts are 0.5-0.7pp below consensus. In some of the smaller EMEA countries, the difference is even bigger.

Moderate inflation, supportive monetary policy, little room for fiscal boost

Inflation is likely to moderate, with the exception of Turkey and South Africa. This should allow central banks to leave policy rates on hold for an extended period of time. However, we are sceptical about sizeable rate cuts. The scope for supporting growth with fiscal policy in 2012/13 is likely to be limited. This reflects the need to reduce public debt (Hungary, Poland), the already high share of government spending (Russia), limitations from external imbalances (Turkey) or rising public wages and debt service costs (South Africa).

Strong dollar might pose headwinds for EMEA currencies

Given a likely stronger US dollar (certainly against the EUR), we believe EMEA currencies might find it hard to rally substantially in 2012/13. A strong USD would probably constitute a disincentive for aggressive ‘carry trades’ into EM currencies. We are most sceptical about the Ukrainian hryvnia, the Egyptian pound, and the Nigerian naira – all of which face considerable depreciation risk, we think. In contrast, we are most confident about the Kazakh tenge.

Big regional themes for 2012/13: Global growth, Russia, Turkey and SA

We believe the resolution of the euro zone debt crisis is the single biggest issue for emerging EMEA. In Russia, the key issue is the progress of structural reforms after the 2012 presidential elections. In Turkey, the main question is whether the economy will be able to manage a soft landing from its unsustainable macro path. Key challenges in South Africa are slowing growth with rising inflation, a potential rise in strike action and the risk of renewed power shortages. In Egypt, the greatest task will be to return the economy to normality amid political upheaval.

The world economy in 2012-2013

Soft outlook for the global economy; euro zone moving towards recession in 2012

UBS has recently published updated forecasts for the global economy in 2011/2012 and – for the first time – projections for 2013. Following estimated growth of 3.2% in 2011, we expect the world economy to expand by just 3.1% in 2012 and 3.4% in 2013. Our forecast assumes that **Europe** avoids a full-blown crisis, and the financial and economic dislocations that would follow. But it *does* assume that the region will see a modest credit crunch in the period ahead. This, combined with substantial fiscal austerity and debt restructuring, will drag the euro zone towards recession in 2012. We cut our 2012 GDP forecast for the euro zone to 0.2% from 1.0% and anticipate 1.0% for 2013. Growth in **Germany** is set to decelerate from 2.8% this year to just 0.8% in 2012 and 1.6% in 2013. Fortunately, a European recession need not imply a US recession. Following 1.8% growth in 2011, we forecast US growth of 2.3% in 2012 and 2.7% in 2013.

Subdued inflation; no monetary tightening in the foreseeable future

Given sluggish growth, we expect inflation in the developed world to stay subdued and monetary policy to remain highly accommodative for the foreseeable future. We do not expect the Federal Reserve to start lifting interest rates until H2 2013, and the European Central Bank (ECB), Bank of Japan (BoJ), and Bank of England (BoE) are unlikely to tighten policy at all in 2012/13. We still believe that the US dollar is over-sold, particularly against the euro. With interest rate and growth differentials skewed in favour of the US, we expect the euro to end 2012 at 1.25 and fall towards 1.20 by the end of 2013.

Europe remains a source of downside risk

The key downside risk is a deeper crisis in Europe that would destabilise global financial conditions and drag the world economy into recession.

Table 1: UBS global forecasts

	2008	2009	2010	2011F	2012F	2013F
GDP growth						
US	-0.3	-3.5	3.0	1.8	2.3	2.7
EU-13	0.3	-4.2	1.8	1.7	0.2	1.0
Germany	0.8	-5.1	3.6	2.8	0.8	1.6
Japan	-1.2	-6.3	4.0	-0.6	2.9	1.7
China	9.6	9.2	10.3	9.0	8.3	8
World	2.0	-1.1	4.3	3.2	3.1	3.4
Inflation						
US	3.8	-0.3	1.6	3.1	1.8	2.3
Euro area	3.3	0.3	1.6	2.7	1.7	1.8
Japan	1.4	-1.3	-1.0	-0.3	-0.2	0.2
Interest rates (eop)						
US Fed funds rate	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0.75
US 10-year bond yield	2.70	3.80	2.40	2.00	2.40	3.00
ECB Refi rate	2.50	1.00	1.00	1.00	1.00	1.00
Bunds 10 year	3.20	3.20	2.90	2.00	2.40	2.80
Exchange rates						
USD/EUR (eop)	1.39	1.43	1.25	1.35	1.25	1.20
USD/JPY (eop)	91	93	85	75	80	85
Oil price (Brent, $/bb)	98.5	79.8	80.4	111.5	100.0	95.0

Source: UBS estimates

Implications for emerging EMEA

Difficult external environment will allow only unimpressive growth in emerging EMEA in 2012/13

The global and European economic outlook sketched above will provide a challenging environment for emerging EMEA that will only allow for unimpressive growth rates in 'our region' in 2012/13. After 4.5% growth in 2010 and an expected 4.2% in 2011, we expect real GDP growth to slow to just 3.0% in 2012 (consensus: 3.5%), before accelerating again to 3.8% in 2013. With the risk to our global and European growth forecasts being skewed to the downside, the forecast risk to our emerging EMEA forecasts seems tilted to the downside too.

Our emerging EMEA 2012 growth forecasts are markedly below consensus

Our 2012 GDP forecasts are below consensus, essentially across the board, in many cases quite substantially. We believe the consensus forecasts for emerging EMEA have not yet adjusted sufficiently for the worsened euro zone growth outlook, and will have to come down over the coming weeks and months. In the bigger EMEA countries, such as Russia, Turkey, South Africa, Poland and Hungary, our 2012 forecasts are 0.5-0.7pp below consensus. In some of the smaller EMEA countries, the difference is even bigger. For example, we expect growth rates of just 0.5-1.5% for the small open economies of the Baltics whereas consensus still expect growth rates of 3-3.5% – in our view, entirely unrealistically.

Table 2: EMEA real GDP growth and ***contributions*** to real GDP

	Weights in EMEA GDP	Real GDP growth, %				Consensus		UBS versus consensus	
		2010	2011F	2012F	2013F	2011	2012	2011	2012
Poland	10.8%	3.8	4.0	2.9	3.4	3.9	3.0	0.1	-0.1
Hungary	2.9%	1.2	1.5	0.5	1.5	1.6	1.0	-0.1	-0.5
Czech Republic	4.0%	2.3	2.4	1.0	1.8	2.0	1.5	0.4	-0.5
Romania	4.0%	-1.3	1.5	2.5	3.0	1.5	2.5	0.0	0.0
Bulgaria	1.4%	0.2	2.5	1.5	2.5	2.1	2.7	0.4	-1.2
Estonia	0.4%	3.1	6.5	1.5	3.5	6.9	3.4	-0.4	-1.9
Latvia	0.5%	-0.3	4.0	0.5	3.0	4.2	3.0	-0.2	-2.5
Lithuania	0.9%	1.3	6.0	1.5	3.5	5.7	3.3	0.3	-1.8
Russia	33.2%	4.0	4.1	3.3	3.8	4.2	4.0	-0.1	-0.7
Ukraine	4.6%	4.2	4.8	3.0	3.5	4.5	4.1	0.3	-1.1
Kazakhstan	2.9%	6.9	7.0	5.5	6.0	6.3	5.7	0.7	-0.2
Turkey	13.8%	9.0	7.1	2.0	3.8	7.0	2.6	0.1	-0.6
Egypt	7.4%	5.5	0.0	3.0	4.5	1.2	3.2	-1.2	-0.2
South Africa	7.9%	2.8	3.1	2.6	3.7	3.2	3.2	-0.1	-0.6
Nigeria	5.4%	7.6	7.5	6.7	7.3	7.3	7.2	0.2	-0.5
EMEA	100.0%	4.5	4.2	3.0	3.8	4.2	3.5	0.0	-0.5
EMEA (ex Russia)	66.8%	4.8	4.2	2.8	3.9	4.2	3.3	0.0	-0.5
Eastern Europe	24.9%	2.0	3.1	2.1	2.8	3.0	2.4	0.1	-0.4
Baltics	1.7%	1.2	5.5	1.2	3.4	5.5	3.2	0.0	-2.0
CIS	40.6%	4.3	4.4	3.4	3.9	4.4	4.1	0.0	-0.7
SA & NI	13.3%	4.8	4.9	4.2	5.2	4.9	4.8	0.0	-0.6
EMEA (ex Egypt & Nig)	87.3%	4.3	4.3	2.8	3.6	4.3	3.3	0.0	-0.6

Source: National sources, UBS estimates. *Consensus figures taken from Consensus Economics, 10 and 17 October 2011

Russia, Poland and South Africa to grow by 2.5-3.5% next year…

As regards the bigger countries in emerging EMEA, we now expect **Russia, Poland and South Africa** to grow by 2.5-3.5% next year – by no means exciting, but not so bad either, considering the poor external circumstances. **Romania** and **Ukraine** are likely to be in this group too.

In contrast, **Hungary** and the **Czech Republic** are likely to grow by just 1% or less next year, given their high openness to foreign trade, tight fiscal policies and – in the case of Hungary – ongoing deleveraging. This reflects a more general point. At a time when the external environment is poor, countries with healthy domestic demand (such as Poland) are likely to suffer less of a growth slowdown than those countries that are crucially dependent on foreign trade.

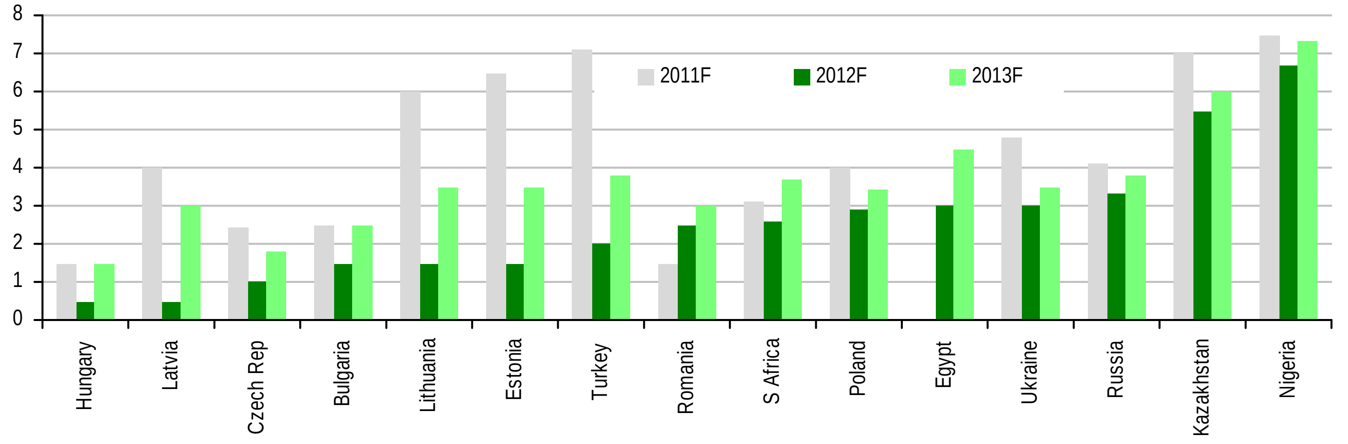
...Hungary and the Czech Republic by not more than 1%

According to our base-case forecast, **Turkey** should be somewhere in the middle next year, with a growth rate of 2%. Yet, we have to stress (again) that we see a significant risk of a more substantial slowdown, and perhaps recession, given the fragile macro situation in Turkey, with a large and poorly funded external deficit, sharply rising inflation, a shaky currency, and an increasingly complicated monetary policy.

Turkey: downside macro risks remain elevated

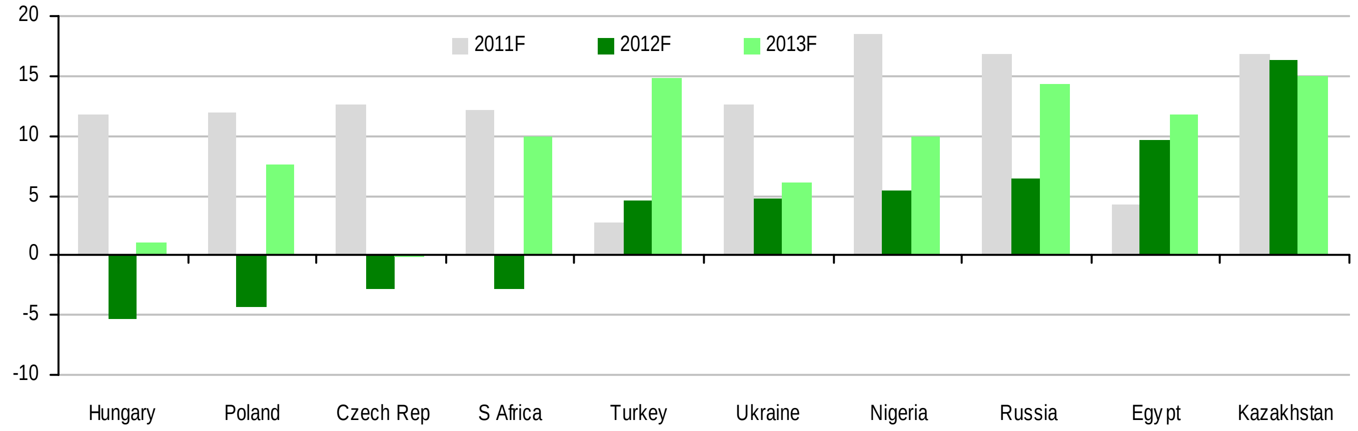
The 2012 growth champions in the broader EMEA region are likely to be two oil economies: **Nigeria** (6.7%) and **Kazakhstan** (5.5%). Kazakhstan is also likely to boast the highest nominal GDP growth (US$ based) in 2012.

Chart 1: Real GDP growth, %, 2011-2013F



Source: UBS estimates

Chart 2: Nominal USD GDP growth, %, 2011-2013F

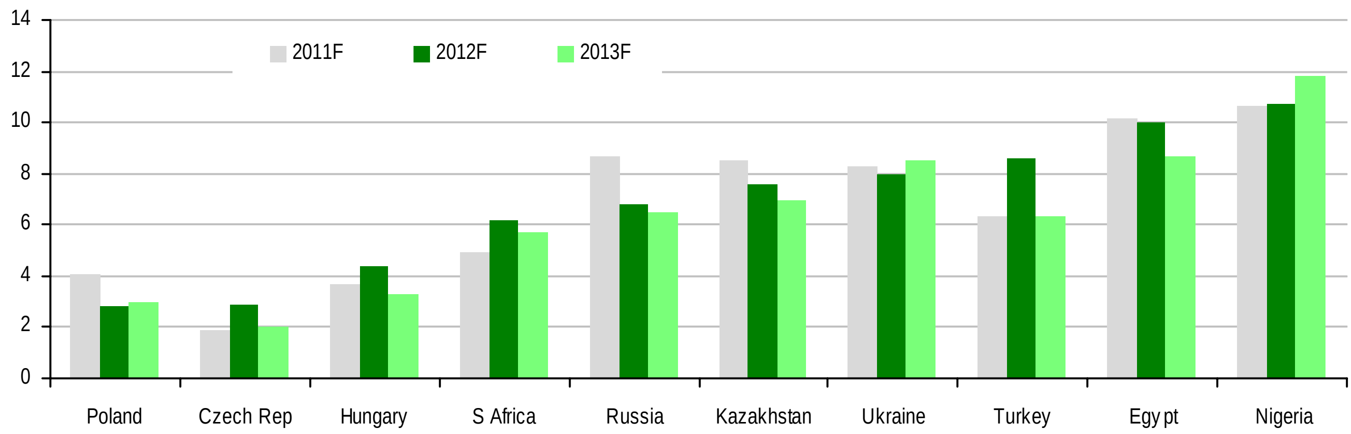


Source: UBS estimates

Given soft growth, **inflation** pressure in most 'core' EMEA countries is likely to be relatively moderate next year, with the exception of Turkey and South Africa. This suggests that central banks will leave policy rates on hold for an extended period of time. In **Hungary, Poland** and **South Africa**, we do not currently see room for rate cuts, given currency weakness. And in **Turkey**, there seems to be a case for high(er) rates, given currency weakness and rising inflation.

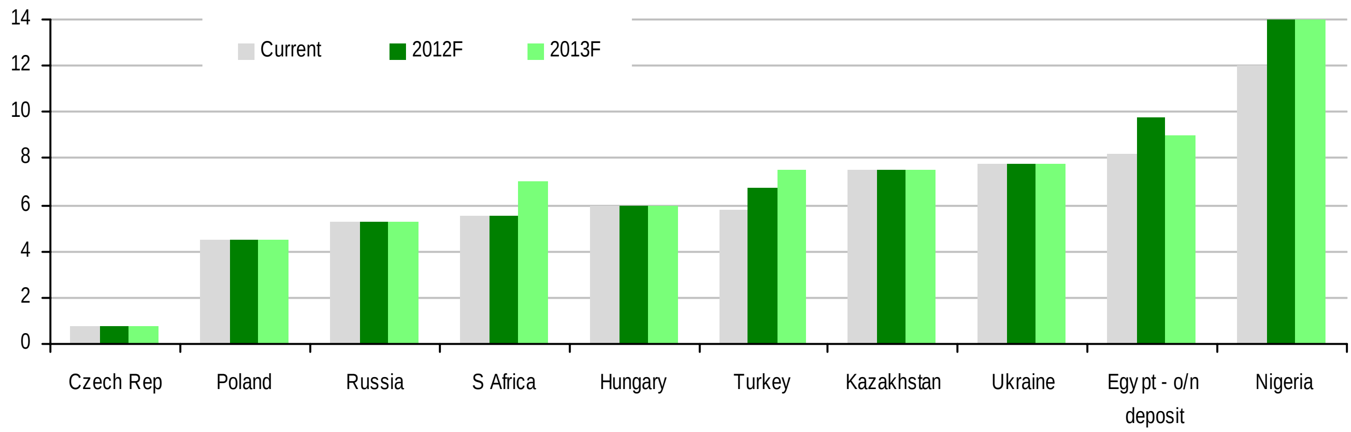
EMEA inflation to stay moderate, except for Turkey and South Africa

Chart 3: Inflation rates, %, 2011-2013F



Source: UBS estimates

Chart 4: Key policy rates, %, current and 2012-13F



Source: UBS estimates

Table 3: EMEA policy rate forecasts for 2011-13F

	Key policy rate	Current	End-11F	End-12F	End-13F
US	Fed funds target	0-0.25	0-0.25	0-0.25	0.75
ECB	Refi rate	1.25	1.25	1.00	1.00
BoE	Base rate	0.50	0.50	0.50	0.50
Poland	Money market intervention rate	4.50	4.50	4.50	4.50
Hungary	Base rate	6.00	6.00	6.00	6.00
Czech Republic	2-week repo rate	0.75	0.75	0.75	0.75
Russia	Repo rate	5.25	5.25	5.25	5.25
Ukraine	NBU discount rate	7.75	7.75	7.75	7.75
Kazakhstan	Refinancing rate	7.50	7.50	7.50	7.50
Turkey	1-week repo rate	5.75	5.75	6.75	7.50
Egypt	Deposit/lending rate	8.25/9.75	8.25/9.75	9.75/11.25	9.00/10.50
South Africa	Repo rate	5.50	5.50	5.50	7.00
Nigeria	Monetary policy rate	12.00	12.00	14.00	14.00

Source: Haver, UBS estimates

Strong dollar might pose headwinds for EMEA currencies

Given our expectations of a stronger US dollar (certainly against the EUR), we believe **EMEA currencies** might generally find it hard to rally substantially in 2012/13 against the US$, compared with current levels. With the dollar remaining the most important funding currency, a strong USD would probably constitute a disincentive for aggressive ‘carry trades’ into EM currencies.

We are most sceptical about the Ukrainian hryvnia, the Egyptian pound, and the Nigerian naira – all of which face considerable depreciation risk. In contrast, we are most confident about the Kazakh tenge.

Table 4: UBS currency forecasts

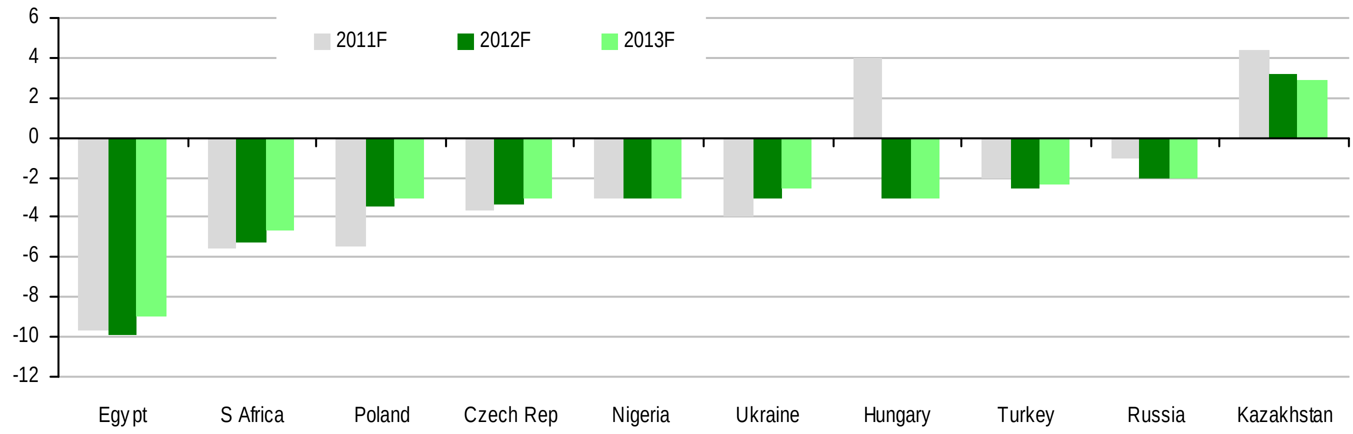
				Change vs current rates	
	Current	End-2012	End-2013	End-2012	End-2013
EUR/USD	1.36	1.25	1.20	9.1	13.6
USD/PLN	3.19	3.20	3.17	-0.2	0.8
EUR/PLN	4.38	4.00	3.80	9.4	15.2
USD/HUF	226.65	224.0	225.0	1.2	0.7
EUR/HUF	310.65	280.0	270.0	10.9	15.1
USD/CZK	18.66	19.44	19.75	-4.0	-5.5
EUR/CZK	25.44	24.30	23.70	4.7	7.3
USD/RUS	30.50	30.00	29.00	1.7	5.2
EUR/RUS	41.94	37.50	34.80	11.8	20.5
USD/UAH	7.98	9.00	9.00	-11.3	-11.3
EUR/UAH	11.00	11.25	10.80	-2.2	1.9
USD/KZT	147.98	142.5	140.0	3.8	5.7
EUR/KZT	203.81	178.1	168.0	14.4	21.3
USD/TRY	1.80	1.75	1.65	3.0	9.2
EUR/TRY	2.44	2.19	1.98	11.7	23.4
USD/EGP	5.97	6.50	6.00	-8.2	-0.5
EUR/EGP	8.15	8.13	7.20	0.3	13.2
USD/ZAR	7.91	7.80	8.15	1.4	-3.0
EUR/ZAR	10.90	9.74	9.70	11.9	12.4
USD/NGN	152.32	166.5	168.0	-8.5	-9.3
EUR/NGN	207.61	208.1	201.6	-0.2	3.0

Source: Thomson Financial, UBS. * Current prices as of 9 November 2011

The scope for supporting growth with fiscal policy in 2012/13 will vary across EMEA, but will generally be limited, in our view. **Poland** is trying to avoid breaking its 55%-of-GDP debt limit, and **Hungary** has a fiscal consolidation plan to keep its fiscal deficit to less than 3% of GDP in 2012, in order to get out of the EU's 'excessive deficit' procedure. **Russia** will be under pressure to reduce public spending after the parliamentary and presidential elections in December 2011 and March 2012, respectively. After all, Russia's budget breakeven oil price is now at around US$115/bbl, up sharply from US$65/bbl in 2007/08, which implies a much greater risk from falling oil prices. In **Turkey**, there might be some room for stronger public spending, but only if the current account deficit shows clearer signs of a narrowing over the coming quarters. **South Africa** is constrained by the heavy burden of a much bigger public-sector wage bill and rising debt service costs.

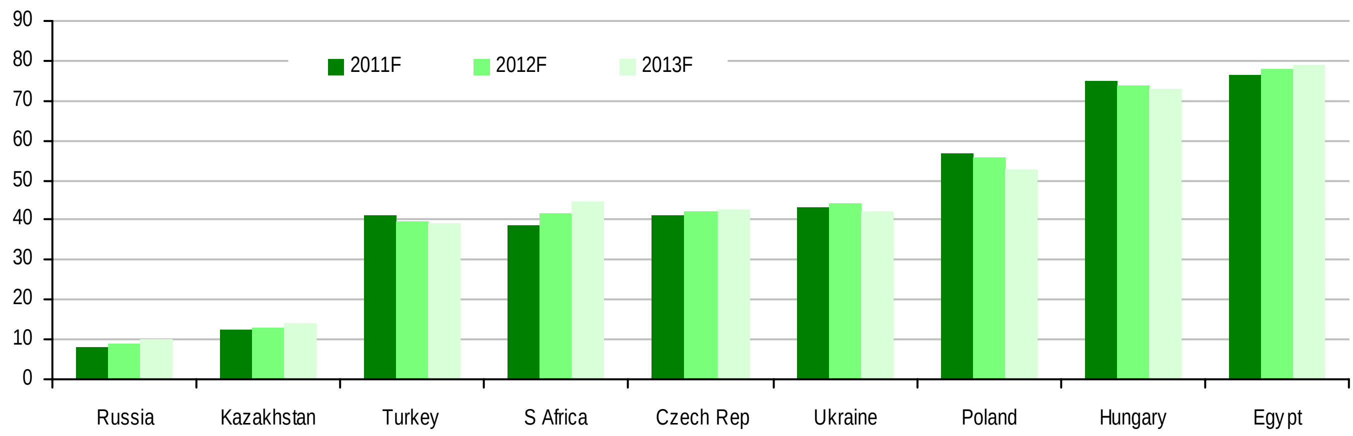
Scope for supportive fiscal policy likely to be limited

Chart 5: Fiscal balances, % of GDP, 2011-2013F



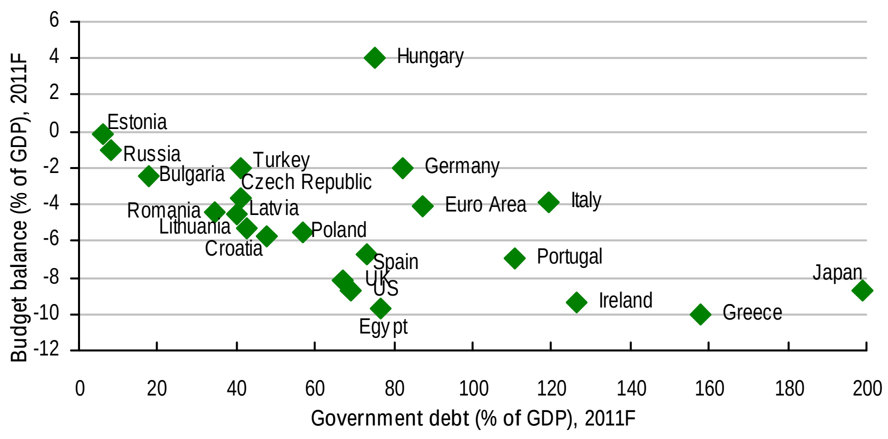
Source: UBS estimates

Chart 6: Government debt, % of GDP, 2011-2013F



Source: UBS estimates

Chart 7: Budget balances and public sector debt, 2011F



Source: IMF, EuroStat, UBS estimates

Big regional themes for 2012/13: global growth, Turkey, Russia, SA

From a super-big picture point of view, the key question for ‘core’ EMEA is certainly how the region will cope with the likely challenging external environment. And in this regard, the resolution of the **euro zone** debt crisis and its implications for European growth is probably the single biggest issue for emerging EMEA.

Euro zone event to remain a major determinant of EMEA performance

As regards emerging EMEA itself, we think one of the biggest question marks refers to the region’s two biggest economies, Russia and Turkey, and to a lesser degree in South Africa. In **Russia**, economic and financial market performance might depend crucially on whether or not the authorities manage to accelerate structural reforms after the presidential elections in March 2012.

Will Russia accelerate structural reforms in 2012/13

In **Turkey**, the key issue is whether the economy can stage a soft landing or whether the large external deficit (Chart 8) and rising inflation will eventually trigger financial market turbulence and a much sharper growth slowdown than our base case scenario implies.

Will Turkey manage a ‘soft landing’?

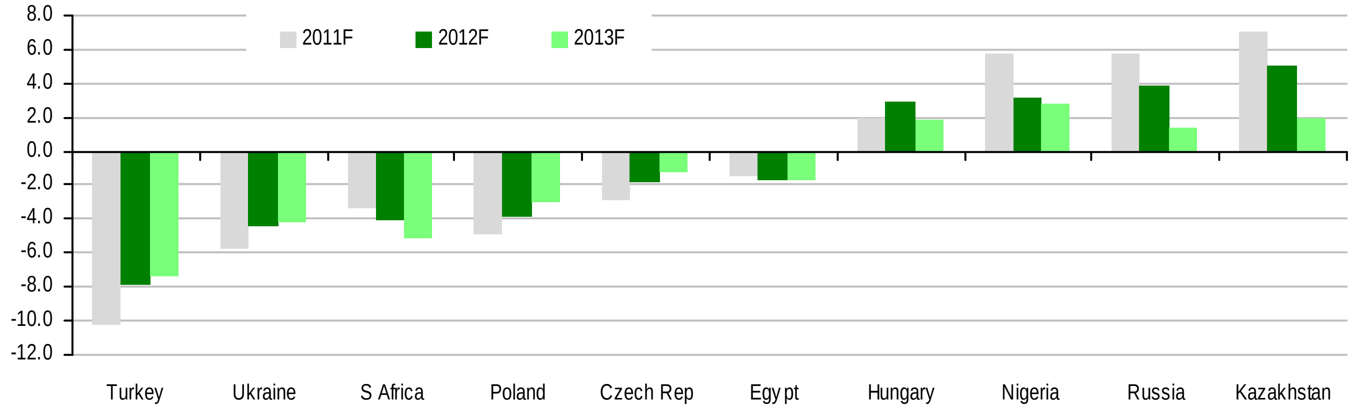
In **South Africa**, policy makers are faced with the challenge of managing slowing growth and rising inflation. Strike activity (which severely affected Q2 2011 GDP) will probably rise ahead of the ANC presidential election in late 2012. Also, there is a risk that Eskom could once again fail to produce sufficient electricity, given the likely delay in the launch of the new Medupi coal-fired generator to 2013.

Will South Africa suffer from strikes and power shortages again?

In **Egypt** (and other MENA countries undergoing drastic change), the greatest task will be to return the economy towards normality amid profound and lengthy political overhaul.

In **CEE,** the key domestic issue is the progress with structural reforms and fiscal consolidation.

Chart 8: Current account balance, % of GDP, 2011-2013F



Source: UBS estimates

Key forecasts for individual countries

Poland

Poland should remain the fastest growing country in Central-Eastern Europe in 2012-13. We expect GDP growth to slow from 4.0% in 2011 (consensus: 3.9%) to 2.9% in 2012 (consensus: 3.0%), and then rebound to 3.4% in 2013. Domestic demand will be the key driver of economic activity. The biggest challenge is to cut the budget deficit to 3% of GDP in the next two years from 5.5% of GDP in 2011. This requires an additional 0.5-1.0% of GDP fiscal tightening on top of the already announced measures. We do not foresee Poland breaching the 55% of GDP debt ceiling. In our view, inflation is likely to fall back to the central bank's target range in Q1 2012 and stay there for the forecast period. Thus we predict that the NBP will leave its policy rate on hold at 4.50%. We believe the Polish Zloty has room to strengthen in 2012-13.

Hungary

There are two key macro themes in Hungary for 2012-13. First, the government's commitment to keep the budget deficit around 3% of GDP and the current account surplus should help to contain Hungary's macro vulnerabilities. Second, the growth outlook remains very fragile and crucially depends on external demand. The drastic deleveraging pressure on households and banks should continue to drag down the recovery. In addition, some measures in the fiscal adjustment package could prove harmful for growth and add to uncertainty. We expect real GDP to slow from 1.5% in 2011 (consensus: 1.6%) to 0.5% in 2012 (consensus: 1.0%) then rebound back to 1.5% in 2013. Although the output gap is likely to remain negative in 2012-13, we expect the NBH to keep rates on hold to support the HUF and to anchor inflation expectations.

Czech Republic

The outlook for the Czech economy in 2012-13 is mainly going to be driven by the changes in external demand. We expect Czech GDP growth to slow from 2.4% in 2011 (consensus: 2.0%) to just 1.0% in 2012 (consensus: 1.5%) before rebounding to 1.8% in 2013. The economy remains underleveraged and the fiscal position looks fine, which means that the economy is free from macro imbalances. Inflation is likely to rise to 3% in 2012 – due to the hike in VAT to finance the launch of the pension reform – but should fall back to around the CNB's 2% target in 2013. We do not expect the CNB to change its 0.75% policy rate, although in the short term the risk might be towards a rate cut. The CZK should have the potential to strengthen in 2012-13.

Russia

Given the soft global environment, our growth projections for Russia are cautious, at 4.1% for 2011 (consensus: 4.2%), 3.3% for 2012 (consensus 4.0%) and 3.8% for 2013. Growth could be a lot higher if the authorities were to boost market-friendly reforms after the March 2012 presidential elections, which look almost certain to lead to a return of Vladimir Putin to the presidency. WTO accession is a big step in the right direction. Fiscal deficits in 2011 (0-1% of GDP) and in 2012/13 (2% of GDP) are likely to be modest, masking the fact that Russia nowadays depends much more on high oil prices than in the past. This implies big fiscal risks in case of falling oil prices. The current account should continue to show surpluses, boosting FX reserves. Medium term, however, surpluses are likely to wane, given rising imports and stagnating exports. Inflation, expected at 6-7%, should grant the CBR room to keep rates on hold. We are constructive on the RUB, but cautious short term.

Ukraine

Ukraine's economic growth has been close to 5% in 2011, but external imbalances have started to rise and pressure on the UAH has intensified. While it is still possible that the UAH peg against the USD will hold in the next two years, the current uncertain global environment and slow progress in the IMF negotiations make it more likely that some controlled devaluation will occur in 2012 to around 9.0 against the USD (c12% depreciation). Given slower external demand growth, we expect GDP growth to ease to 3.0% and 3.5% in 2012-13. The outlook for inflation is largely a function of the timing and scope of regulated price increases. On the fiscal side, the key issue remains making Naftogaz's finances sustainable.

Kazakhstan

Kazakhstan remains an economy with solid external and government balance sheets in an environment of high oil prices: we see Brent oil at US$100 and US$95 per barrel for 2012 and 2013, respectively. As Eurozone growth is likely to slow sharply in the next two years, we expect Kazakhstan's GDP growth to decelerate to 5.5% in 2012 and 6.0% in 2013, from 7.0% this year. The key themes remain unchanged: a) exports and consumption provide a boost to GDP growth on the back of high oil prices; b) the recovery in bank lending is likely to remain sluggish due to very high NPLs; c) the KZT will probably remain under upward pressure, although the NBK will likely oppose any sharp KZT strengthening; and d) government plans for modernization are likely to fuel investment spending.

Turkey

Besides a difficult external environment, Turkey is facing additional home-grown problems, above all an unsustainably large current account deficit, uncomfortably high inflation and a shaky currency. Whether Turkey can solve these problems without suffering a hard landing is one of the biggest questions facing the EMEA region going into 2012/13. We think the central bank (CBT) will have to keep liquidity very tight over the coming quarters to stabilise financial market confidence and this will bring about a significant slowdown in growth and a more moderate current account deficit. After 7.1% in 2011 (consensus: 7.0%), we envisage GDP growth of 2.0% in 2012 (consensus: 2.6%) and 3.8% in 2013, but see a clear risk of a ‘harder landing’ and recession in 2012.

Egypt

It might be another year until a new parliament, constitution and president are in place – and this is likely to delay the return of confidence and, hence, economic recovery. We now expect the economy to stagnate in 2011 (consensus: 1.2%), and grow only 3.0% in 2012 (consensus: 3.2%), less than previously assumed. The fiscal deficit will likely remain large and financing will probably pose significant challenges, which could well force the authorities to return to the IMF before too long. The loss of FX reserves continues at a disconcerting pace and could eventually force the CBE to hike rates aggressively and/or accept a potentially substantial depreciation of the EGP, which would stoke inflation and challenge investor confidence.

South Africa

After 3.1% GDP growth in 2011, we expect a slowdown to 2.6% in 2012 and a moderate recovery to 3.7% in 2013 (consensus: 3.2% for 2011, 3.2% for 2012 and 3.9% for 2013). Consumer spending is expected to moderate as income growth slows, but a small recovery in employment should provide a fillip. Investment is expected to recover slowly, but accelerating in 2013. Inflation is likely to remain uncomfortably close to the 6% ceiling, limiting room for further interest rate cuts, and fuelling a slow normalisation in 2013.

Nigeria

Economic prospects in Nigeria remain constructive, despite the risks to global growth. New GDP weights will be released in early-2012, which could materially change the estimated size and GDP composition of the economy. We forecast GDP of 7.5% in 2011, and 6.7% in 2012 (consensus: 7.3% and 7.2% respectively) and 7.3% in 2013. The economy is internally focussed with exports concentrated in oil and domestic growth driven mostly by agriculture. Fiscal policy will remain challenged by heavy dependence on oil revenues, and a large public sector wage bill. We expect CPI inflation to stay uncomfortably above the targeted 10% y/y through end-2013, and for monetary policy to keep interest rate high. The NGN is expected to weaken moderately.

UAE

After 3.2% in 2010 and a better-than-previously-expected 4.2% in 2011E, we project the UAE to grow by 3.2% and 4.0%, respectively, in 2012/13. While Abu Dhabi benefits from stronger oil production and public spending, Dubai has seen decent activity in logistics, trade and tourism, and even feeling the first signs that the headwinds from real estate and construction are easing. This should also support the recovery in credit growth. Oil prices of US$100-95/bbl in 2012/13 imply ongoing budget and current account surpluses, and further reserve accumulation.

Saudi Arabia

The Saudi economy seems to be on track to grow by 6% in 2011 (consensus: 6.2%), boosted by higher oil production and an extensive fiscal package, rolled out in an effort to prevent a spillover of political unrest to the Kingdom. We expect growth to decelerate to 3.5% in 2012 (consensus: 4.6%) and 3.8% in 2013. Amid very strong oil revenues, the fiscal and current account balances are boasting large surpluses which are likely to stay in place in 2012/13 too. Yet, the budget breakeven oil price has risen strongly in recent years to around US$85 now, which implies growing vulnerabilities from a potential fall in oil prices.

Poland

Poland should remain the fastest growing country in Central-Eastern Europe in 2012-13. We expect GDP growth to slow from 4.0% in 2011 to 2.9% in 2012 (consensus: 3.0%), and rebound to 3.4% in 2013. Domestic demand will be the key driver of economic activity. The biggest challenge is to cut the budget deficit to 3% of GDP in the next two years from 5.5% in 2011. This requires an additional 0.5-1.0% of GDP fiscal tightening on top of the already announced measures. We do not foresee Poland breaching the 55% of GDP debt ceiling. In our view, inflation is likely to fall back to the central bank's target range in Q1 2012 and stay there for the forecast period. Thus we predict that the NBP will leave its policy rate on hold at 4.50%. We believe the Polish Zloty has room to strengthen in 2012-13.

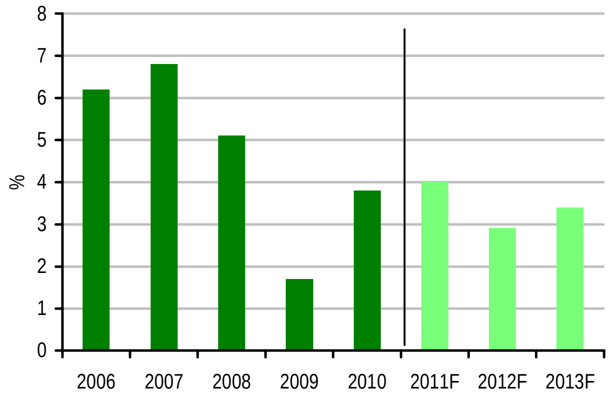
We expect 4.0% GDP growth in 2011, 2.9% in 2012 and 3.4% in 2013

Poland's economic outlook is determined by the combination of robust domestic demand and softening external demand. We forecast GDP growth to slow from 4.0% in 2011E to 2.9% in 2012, as the euro zone economy essentially comes to a standstill. Poland would thus be one of the fastest growing countries in EMEA in 2012. Our forecast is in line with the market consensus (3.9% in 2011 and 3.0% in 2012). We see some rebound in GDP growth to 3.4% in 2013. The main risk is further escalation of the European crisis and a much sharper drop in global economic activity.

Domestic demand will be the key growth driver in 2012-13

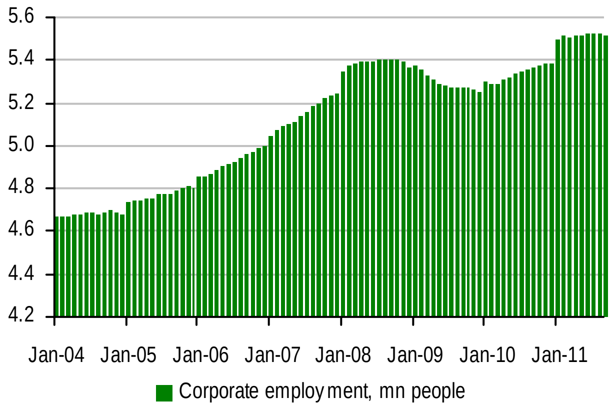
There are several factors underpinning domestic demand in 2012-13. Firstly, there is no real deleveraging pressure in the private sector. Secondly, record high employment and modest real wage gains are expected to support household consumption. Thirdly, investment spending should benefit from excellent corporate profitability, the absorption of EU funds and the preparation for the European 2012 Soccer Championship. The key uncertainty is the effect of fiscal consolidation in 2012 on demand.

Chart 9: GDP growth outlook



Source: GUS, UBS estimates

Chart 10: Record high employment to support consumption



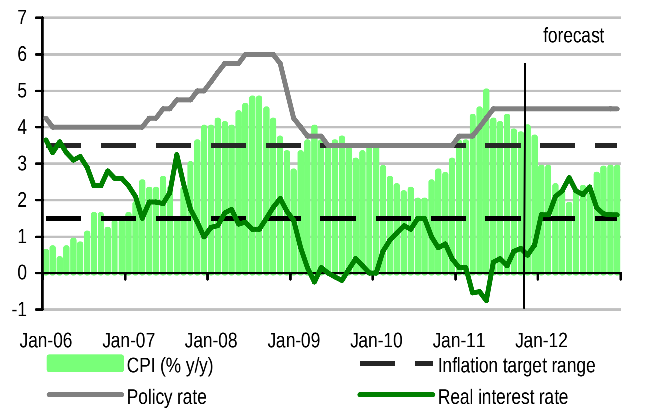
Source: GUS. UBS estimates

Rates on hold at 4.50% in 2012-13

Following 100bps of rate hikes in H1 2011 to 4.50%, we expect the National Bank of Poland (NBP) to keep its policy rate unchanged at 4.50% until 2013 for three reasons. Firstly, we forecast inflation to be around 3% on average in the next two years due to decelerating economic growth. Based on our projection, inflation should return to the NBP's target range of 1.5-3.5% in Q1 2012.

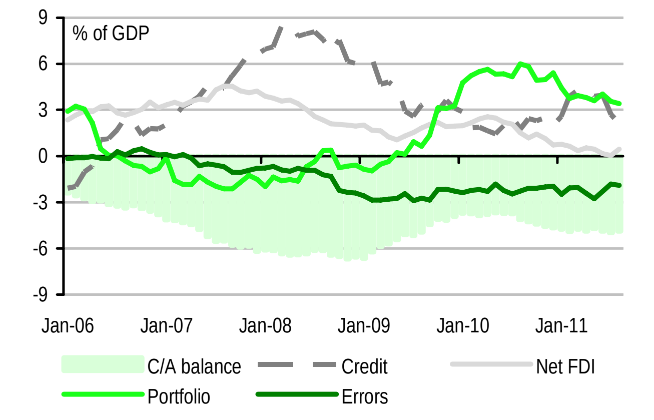
Secondly, the current PLN weakness leaves little room for rate cuts. Thirdly, UBS believes that the ECB will cut its policy rate to 1% and keep it there.

Chart 11: Inflation and monetary policy outlook



Source: NBP, BIS, GUS

Chart 12: Current account deficit stabilised in 2011



Source: NBP, UBS

We remain positive on the PLN

We remain fundamentally positive on the zloty. In our view, the combined NBP and Finance Ministry interventions in September-October were successful to stem the PLN depreciation and we see the Zloty at 4.45 against the EUR end-2011. We cannot exclude the possibility of further NBP interventions to arrest sharp one-way falls in the PLN. At the current exchange rate the 55% of GDP public debt ceiling looks safe for 2011. We expect the PLN to reverse its current weakness and appreciate to around 4.00 by end-2012 due to a growth premium over the euro zone, smaller current account deficit and still attractive yields.

Poland's public debt threshold looks safe for 2011

In our view, Poland is on track to reduce its budget deficit to 5.5% of GDP in 2011 from 7.9% of GDP in 2010. If the current PLN exchange rate holds, then the public debt (national definition) to GDP ratio would come in around 54% in 2011, below the 55% prudential threshold. The financing also looks solid as Poland has already started to pre-finance 2012 issuance after completing this year's borrowing programme.

Further fiscal measures are needed to lower the budget deficit to 3% of GDP in 2012

The Polish government has already presented a set of measures – wage bill freeze, limit on discretionary spending, capping local government's deficit and limiting early pensions — in order to cut the budget deficit to 3.0% of GDP in 2012. However, due to the optimistic macro assumptions of the budget (4% growth in 2012) and the potential risks related to local government finances, we believe Poland would need to come up with 0.5-1.0pp of GDP additional fiscal consolidation measures. This can be achieved via a combination of smaller tax hikes and/or spending cuts. If Poland succeeds in keeping the 2012 budget deficit target, sticks to its privatisation goals (PLN 10bn) and the PLN/EUR strengthens (10% stronger PLN would cut the public debt stock by 1.4pps of GDP), we expect the public debt to GDP ratio to start to fall again in 2012-13. As the major elections are out of the way, Poland could have a politically more conducive period for economic reforms and fiscal tightening measures. A key risk here is a drastic external slowdown, which would force Poland to come up with more severe tightening, which would hurt economic growth in turn. In this case, we would not exclude the possibility of a temporary freeze of private pension contributions to help the budget without directly hurting growth.

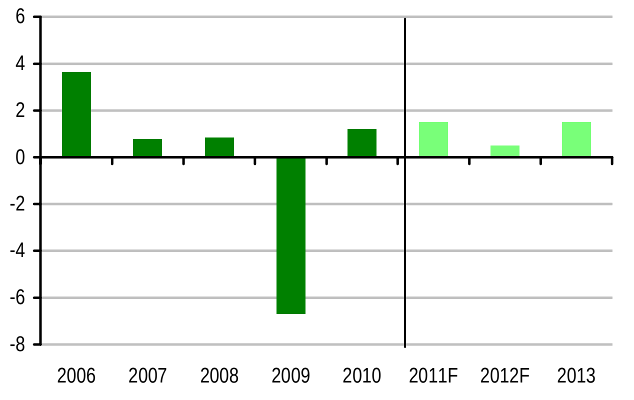
Hungary

There are two key macro themes in Hungary for 2012-13. First, the government's commitment to keep the budget deficit around 3% of GDP and the current account surplus should help to contain Hungary's macro vulnerabilities. Second, the growth outlook remains very fragile and crucially depends on external demand. The drastic deleveraging pressure on households and banks should continue to drag down the recovery. In addition, some measures in the fiscal adjustment package could prove harmful for growth and add to uncertainty. We expect real GDP to slow from 1.5% in 2011 (consensus: 1.6%) to 0.5% in 2012 (consensus: 1.0%) then rebound back to 1.5% in 2013. Although the output gap is likely to remain negative in 2012-13, we expect the NBH to keep rates on hold to support the HUF and to anchor inflation expectations.

Weak external demand and the deleveraging need likely to limit economic growth

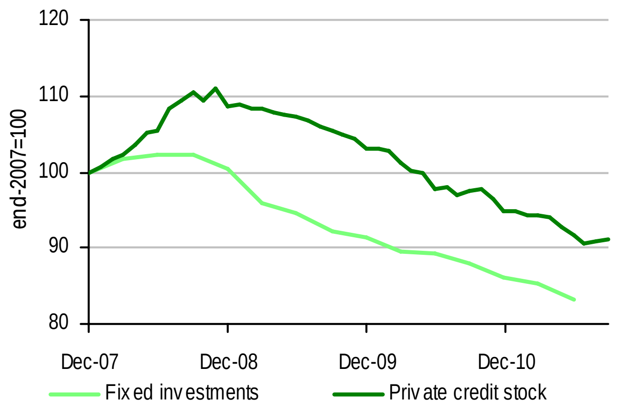
We expect Hungary to face serious growth headwinds in the next two years. This is due to simultaneous pressures from the main drivers of activity. Despite the cut in the personal income tax burden for many taxpayers, household consumption is likely to be restrained by the jump in inflation, high debt service burden and drawdown on savings to participate in the mortgage prepayment scheme. Banks, burdened by the high loan-to-deposit ratio (135%), losses related to the FX prepayments and the special bank tax, are likely to continue to shrink their balance sheets. This would constrain private investments. With euro zone growth coming to a practical halt in 2012, exports are unlikely to provide much support either.

Chart 13: GDP growth outlook (%)



Source: CSO, UBS

Chart 14: Fixed investments* and private sector credit**



Source: CSO, NBH, UBS *Seasonally adjusted **Adjusted for FX changes

0.5% and 1.5% GDP growth in 2012-13

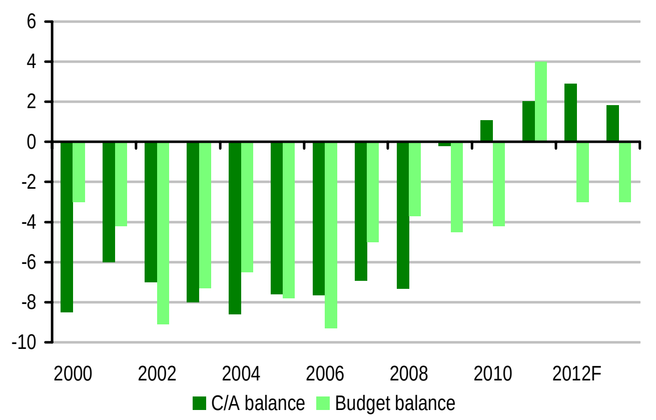
We expect 2012 GDP growth at just 0.5%, down from 1.5% in 2011. We see some recovery to 1.5% in 2013 as a result of some rebound in external demand. Our forecast is below the consensus estimate of 1% growth in 2012. We see a clear downside risk to GDP growth, in case there is a more severe global slowdown. In terms of local risk factors, economic policymaking could make a significant difference – mainly for 2013. A switch towards more growth friendly policies (mainly in relation to the labour market) and structural reforms could boost Hungary's currently very low growth potential.

Fiscal commitments, drastic fiscal tightening in 2012

We expect the government to keep the budget deficit at 3% of GDP in both 2012-13 (but still miss the official 2.5% of GDP target for 2012). This in turn would keep public debt/GDP on a declining path towards 73% of GDP, barring further HUF depreciation. The 2012 budget is based on a huge c4.5% of GDP fiscal adjustment. The main reason for such a drastic correction is that the "underlying budget deficit" in 2011 – excluding the impact of the pension fund asset takeover – would be closer to 5% of GDP. The 2012 budget adjustment consists of several measures: a) implementing spending-side reforms ("Szell Kalman Plan"; c1.4% of GDP) b) additional spending freezes (wages, welfare spending, budget reserves; 1% of GDP) and c) dominantly revenue-based measures (i.e. VAT + excise tax hike; 2.2% of GDP). If these measures are kept in full, we expect that Hungary would run a cyclically adjusted primary surplus of around 1.5-2.0% of GDP. The biggest risk for the fiscal position is a sharper growth slowdown and problems with realising tax income forecasts.

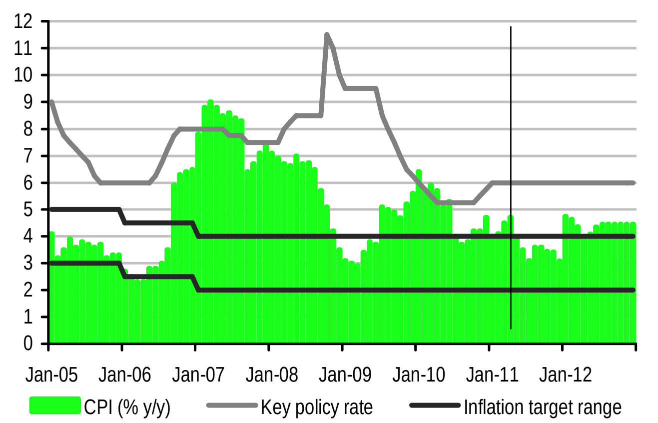
Looking at the fiscal trends for the next two years, it is difficult to argue that Hungary's credit rating would be downgraded. However, we cannot exclude the possibility that Moody's or S&P would still downgrade Hungarian debt to below investment grade, putting more emphasis on potential future problems due to Hungary's low growth potential and the high FX sensitivity of public debt.

Chart 15: C/A and budget balance (% of GDP)



Source: MoF, NBH, UBS

Chart 16: CPI and policy rate outlook



Source: NBH, UBS estimates

High C/A surplus as a result of deleveraging

As a result of the massive deleveraging, Hungary's current account (C/A) position has improved dramatically. We believe the C/A surplus could rise to 3% of GDP in 2012 from 2.0% of GDP surplus this year (even higher if we were to include the EU transfers booked on the capital account). This should be a fundamental support for the HUF. We see some room for the HUF/EUR to correct back from the current levels towards 280 by end-2012.

Base case scenario: no change in the NBH rate of 6.0%

We believe that the National Bank of Hungary (NBH) will keep its policy rate unchanged at 6.0% for both 2012-13 as the effect of the negative output gap would be counterbalanced by two factors. First, headline inflation will be well above 4% in 2012 due to the indirect tax hikes, which could effect inflation expectations. Second, higher risk premium and the HUF weakness also argue for tighter monetary conditions. The risk to our call is symmetric: a pronounced HUF weakness could result in a rate hike, or if the HUF normalises there could be potentially room for a rate cut, maybe from H2 2012 onwards.

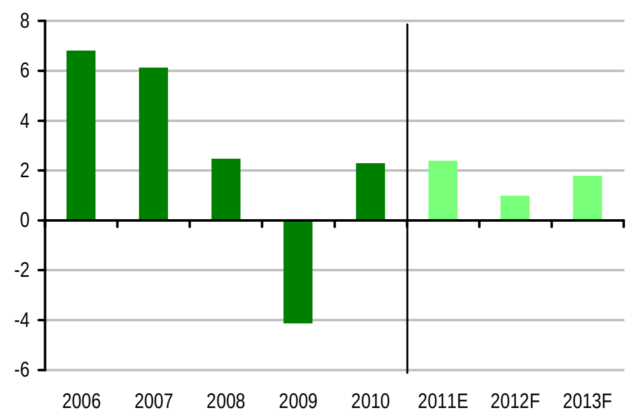
Czech Republic

The outlook for the Czech economy in 2012-13 is mainly going to be driven by the changes in external demand. We expect Czech GDP growth to slow from 2.4% in 2011 (consensus: 2.0%) to just 1.0% in 2012 (consensus: 1.5%) before rebounding to 1.8% in 2013. The economy remains underleveraged and the fiscal position looks fine, which means that the economy is free from macro imbalances. Inflation is likely to rise to 3% in 2012 – due to the hike in VAT to finance the launch of the pension reform – but should fall back to around the CNB's 2% target in 2013. We do not expect the CNB to change its 0.75% policy rate, although in the short term the risk might be towards a rate cut. The CZK should have the potential to strengthen in 2012-13.

External demand is a key driver of GDP growth in 2011

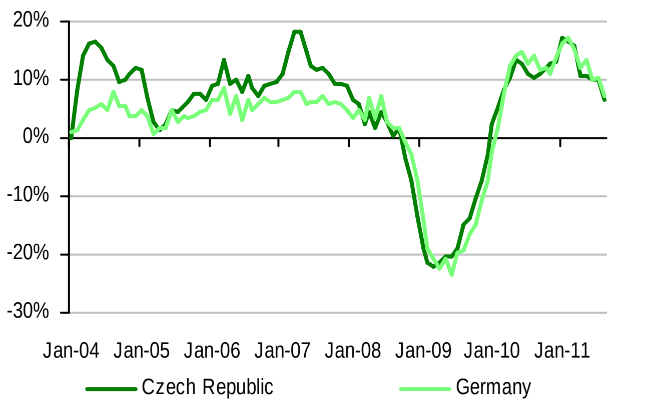
The Czech economy grew by 2.7% y/y in H1 2011, driven by a strong rebound in external demand and better investment dynamics. Household consumption fell as the ongoing fiscal consolidation weighed on consumption expenditure. According to the calculation from the Ministry of Finance, fiscal consolidation will shave more than 1pps off GDP. We expect 2011 GDP growth at 2.4% y/y, although the risk is that the final pace of activity would be more modest.

Chart 17: GDP growth (%)



Source: CSO, UBS estimates

Chart 18: Czech and German manufacturing (%, y/y 3mma)



Source: EuroStat, UBS

We expect GDP growth of 1.0% and 1.8% in 2012 and 2013 from 2.4% in 2011

The economic outlook for 2012-13 should be shaped by two important developments. First, although Czech households are not heavily leveraged and public finances are fine – the cyclically adjusted budget deficit will hit c3.0% of GDP already in 2011 – we do not expect any meaningful contribution from consumption. This has to do with the January 2012 increase in the lower VAT to 14% from 10%, a funding measure for the pension reform cost. The VAT rise is likely to eat up most of the disposable income increase next year. In 2013, we see some normalisation of domestic demand.

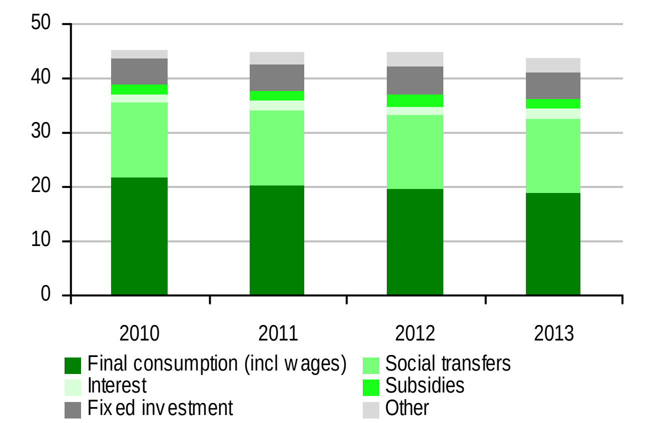
Second, as UBS expects the euro zone economy to grind to a halt in 2012 and German growth to slow significantly, Czech exports should come under pressure. Due to the high openness of the economy (exports to GDP are 75%), this is a key drag on growth. A gradual rebound in European demand is likely in 2013. We expect 1.0% GDP growth in 2012 and 1.8% in 2013. The market consensus is more optimistic for 2012 (1.5% GDP growth).

The Czech government managed to outperform its original fiscal targets for 2011 and now the budget looks to be on track for a 3.7% of GDP deficit. This means another improvement from the 4.8% of GDP deficit in 2010. The better outcome is a reflection of better tax collection (social security contributions), but also of lower spending, both debt services and primary spending. During the course of 2010-11 there was roughly 2pps of GDP worth of fiscal tightening, which enabled the Czech Republic to have a cyclically adjusted budget deficit close to 3% of GDP. Going forward, due to the government's long-term fiscal goals (having a balanced budget by 2016) further fiscal consolidation is necessary, but the scale should be considerably smaller. We expect the budget deficit to fall to 3.0% of GDP by 2013. Public debt in the Czech Republic is relatively low in EMEA, around 40% of GDP.

Budget outperforms in 2011; budget deficit should drop to 3.0% of GDP by 2013

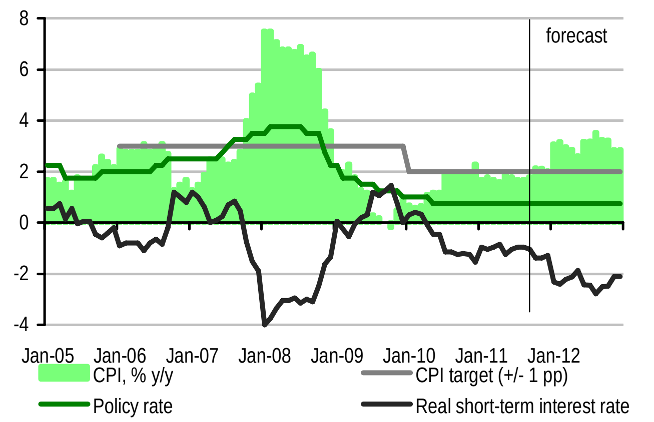
In addition, the government launched the pension reform – introducing private pension funds – and also made progress on other reform areas, like healthcare. These reforms should help the longer-term sustainability of public finances.

Chart 19: Major budget spending cuts in 2011-13 (% of GDP)



Source: MoF, UBS

Chart 20: Inflation and monetary outlook



Source: CSO, CNB, UBS estimates

Inflation has remained very low in the Czech Republic in 2011. Both headline and core inflation rates are below the CNB's 2% inflation target. This reflects the negative output gap (c1% of GDP) and benign food prices and the strength of the CZK in H1. With the economic slowdown in 2012-13, demand-related inflationary pressures should remain muted. However, headline CPI is likely to be strongly influenced by changes in indirect taxes. The government plans to raise the lower VAT rate to 14% in 2012 from 10% currently, adding around 1pps to the headline inflation rate. In 2013, the lower and upper VAT rate will be unified at 17.5%. In addition, some changes in utility prices are also likely to push headline inflation up in 2012. As a result, we expect inflation to rise to 2.9% in 2012 from 1.9% in 2011, before falling back to 2% in 2013. We believe that the CNB in an environment of weak growth and regulated price increases would opt for keeping rates on hold at 0.75%. This would also be in line with UBS' view that the ECB rates will be flat at 1% for the next two years.

We see the CNB policy rate on hold at 0.75% in 2012-13; inflation to pick up on VAT rise in 2012

We continue to see some modest appreciation potential for the CZK to reflect the overall health of the economy and a very robust trade surplus.

Russia

Given the soft global environment, our growth projections for Russia are cautious, at 4.1% for 2011 (consensus: 4.2%), 3.3% for 2012 (consensus 4.0%) and 3.8% for 2013. Growth could be a lot higher if the authorities were to boost market-friendly reforms after the March 2012 presidential elections, which look almost certain to lead to a return of Vladimir Putin to the presidency. WTO accession is a big step in the right direction. Fiscal deficits in 2011 (0-1% of GDP) and in 2012/13 (2% of GDP) are likely to be modest, masking the fact that Russia nowadays depends much more on high oil prices than in the past. This implies big fiscal risks in case of falling oil prices. The current account should continue to show surpluses, boosting FX reserves. Medium term, however, surpluses are likely to wane, given rising imports and stagnating exports. Inflation, expected at 6-7%, should grant the CBR room to keep rates on hold. We are constructive on the RUB, but cautious short term.

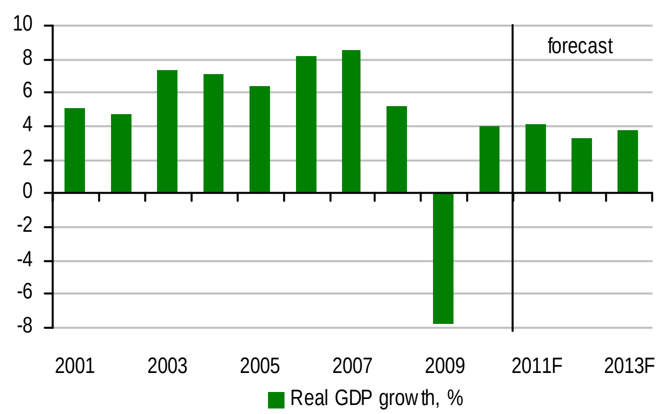
We forecast GDP growth of 4.1% (2011), 3.3% (2012) and 3.8% (2013)

Despite high oil prices, the Russian economy grew by just 3.7% y/y in H1 2011. But thanks to the recovery in real disposable income, stronger fiscal policy and positive base effects, H2 2011 should be better, and we project full-year growth of 4.1%. Given the soft global economic environment, our growth projections for the following two years are cautious, at 3.3% for 2012 (consensus 4.0%) and 3.8% in 2013. Beyond global growth and oil prices (we expect Brent at US$95-100/bbl in 2012/13), we believe the medium-term growth outlook depends crucially on progress in structural reforms that would improve Russia's business climate. If reforms were to accelerate, GDP growth rates of easily 5-6% should be possible for many years, given the significant room for productivity gains. Russia's likely accession to WTO is an important step in this regard but many other reform measures need to follow, in our view.

Progress in structural reforms would boost Russia's growth potential

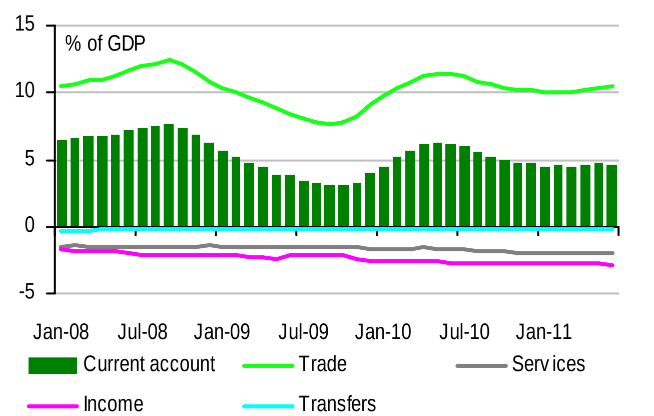
Consequently, we hope to see fresh momentum in structural reforms after the presidential elections in March 2012, which look certain to lead to a return of Vladimir Putin to the presidency. Yet, given past disappointments, we do not necessarily give the authorities the benefit of the doubt.

Chart 21: GDP growth outlook



Source: Haver, UBS forecasts

Chart 22: Sub-components of current account, % of GDP



Source: Haver, UBS

We expect a 2011 budget deficit of just 0-1% of GDP, followed by moderate gaps of 2% of GDP in 2012/13. Yet, Russia's fiscal position is not comfortable at all. Given a large spending boost in recent years, Russia's budget nowadays balances at an oil price of US$115/bbl; in 2008, the breakeven oil price was much lower, at cUS$65/bbl. This makes Russia vulnerable to a sharp decline in energy prices and suggests that the government nowadays has less scope to react to a sharp slowdown in growth with a major fiscal stimulus. Fortunately, Russia's public sector debt stock remains modest, at less than 10% of GDP.

Moderate budget deficits in 2011-13, but high vulnerability to falling oil prices

The current account position is more comfortable, with projected surpluses of 5.8% of GDP in 2011 and 3.8% of GDP in 2012, which should lead to a further rise in FX reserves even when assuming ongoing capital outflows. Yet, over the next few years, Russia's external surplus is likely to disappear if imports keep on growing, but energy exports continue to be held back by capacity constraints.

Sizeable – but declining – external surpluses

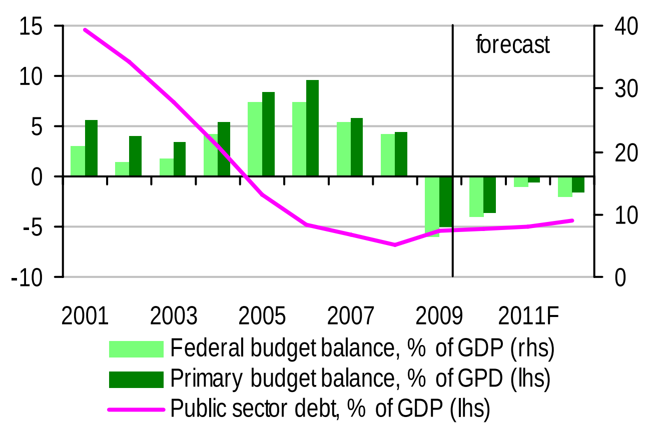
Following a peak of 9.6% y/y in May, inflation is on the decline, thanks to moderate food prices and positive base effects. We expect inflation to hover around 7% until end-2011, before declining towards 6% in H1 2012. Inflation is thus broadly in line with the CBR's comfort zone of 6-7% and – as a result – we expect the CBT to keep rates on hold for the foreseeable future. If and when the economy shows more convincing signs of strength, rates might have to rise, but we think this would only happen later in 2012/13. We think a more substantial reduction in inflation over the medium term will require a further strengthening of the CBR's inflation targeting framework, at the cost of greater exchange rate flexibility. A streamlining of the CBR's monetary policy tool set, which remains overly complicated and somewhat opaque, will also be required.

Inflation at 6-7%, stable policy rates for now

As regards the rouble, we are cautious for the short term, but a lot more constructive beyond that. We expect the currency to strengthen from currently USD/RUB30.6 to 30 and 29, respectively, by end-2012 and end-2013 – an annual appreciation of c2.5% and c3.5%. Yet, the movement against the basket (55% USD, 45% EUR) should be stronger, given our expectation of the EUR weakening towards 1.25 and 1.20 against the USD by end-2012 and end-2013. We expect support from the RUB from the gradual waning of global growth concerns, high oil prices, the moderation in capital outflows and, perhaps later in 2012/2013, higher interest rates.

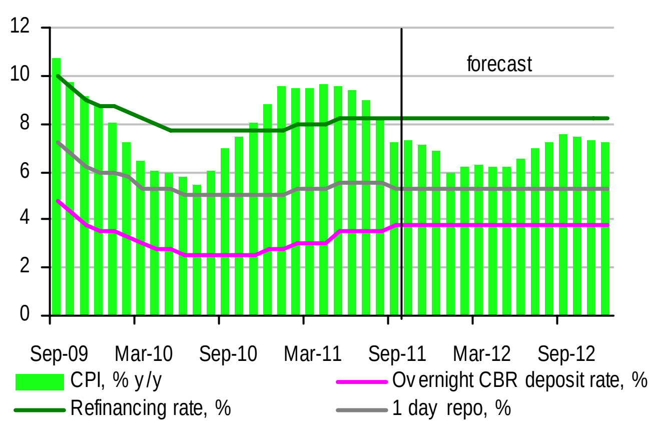
Cautious on the RUB short term, but constructive for 2012/13

Chart 23: Budget balance and public sector debt (% of GDP)



Source: Haver, UBS forecasts

Chart 24: Monetary policy and inflation outlook



Source: Haver, UBS forecasts

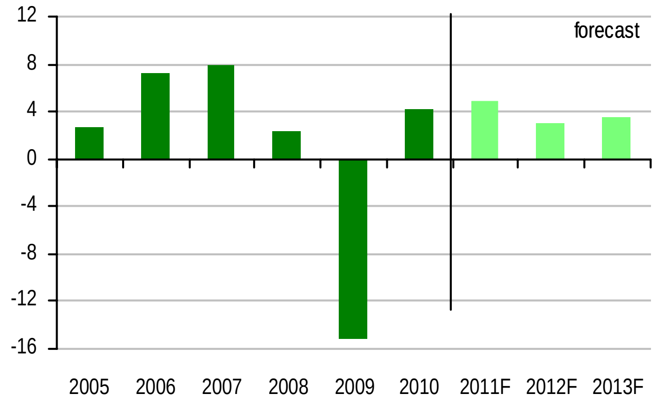
Ukraine

Ukraine's economic growth has been close to 5% in 2011, but external imbalances have started to rise and pressure on the UAH has intensified. While it is still possible that the UAH peg against the USD will hold in the next two years, the current uncertain global environment and slow progress in the IMF negotiations make it more likely that some controlled devaluation will occur in 2012 to around 9.0 against the USD (c12% depreciation). Given slower external demand growth, we expect GDP growth to ease to 3.0% and 3.5% in 2012-13. The outlook for inflation is largely a function of the timing and scope of regulated price increases. On the fiscal side, the key issue remains making Naftogaz's finances sustainable.

Solid GDP growth in 2011, but pressure on the UAH exchange rate built up

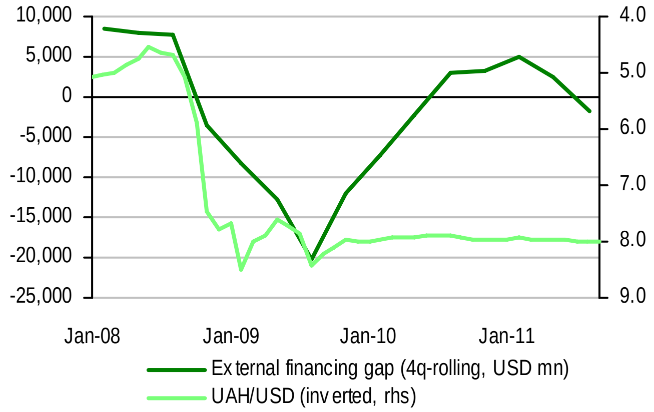
Ukraine's GDP growth averaged 5.3% y/y in the first ten months of 2011, and the economy remains on track to meet our GDP growth forecast of 4.8%. The strong economic momentum is mainly fuelled by a surge in household consumption, improving terms of trade (steel prices are up by 20%), rising steel output and higher agricultural output. However, since June 2011, pressure has been building up on the hryvnia due to a rising current account deficit and households' elevated hard currency demand. The NBU had to intervene to support the hryvnia by selling US$3.4bn in June-September 2011. The lack of progress on the IMF front has stripped Ukraine of any IMF inflows this year.

Chart 25: Real GDP growth



Source: SSS of Ukraine, UBS

Chart 26: External financing gap* (quarterly) and UAH/USD



Source: NBU, UBS *Current account balance plus financing flows (excl IMF, FX res)

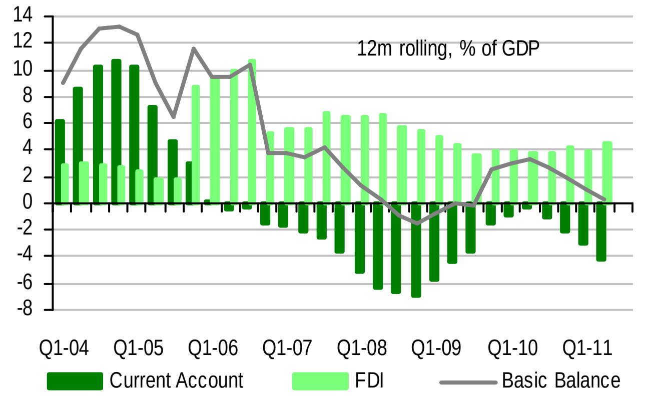
Deteriorating external financing position in 2012

The outlook for the external balance and the UAH is the key issue for 2012. We have based our calculations on the following assumptions: a) flat steel prices next year; b) euro zone and Russian GDP growth slows to 0.2% and 3.3%, respectively; and c) slower Ukrainian import growth. We estimate Ukraine's total external financing needs (current account deficit plus amortisation) to be US$65-68bn in 2012, and correspondingly, we believe that Ukraine's external financing gap will be around US$7-15bn. Three factors play an essential role in deciding whether devaluation will be necessary: a) the cash FX demand of Ukrainian households (local confidence in the hryvnia); b) progress with the IMF programme; and c) roll-over rates of external debt (global sentiment).

If the IMF programme gets back on track quickly (with roughly US$11bn still available until end-2012), locals do not rush to buy cash dollars and roll-over rates remain high, then it will be possible to keep the current UAH peg. However, given the uncertain global outlook and slow progress on the IMF programme (2012 parliamentary elections could put up political hurdles to the negotiations), we believe there is a high chance of a financing gap of around US$10bn. This makes it more likely that the National Bank of Ukraine will allow some hryvnia deprecation to around 9.0 against the USD (12%), which would be proportional to the FX movement in 2008-09. It is important to highlight that the NBU still exerts strong control over the FX market and banks' liquidity, so it should be able to manage the pace of depreciation.

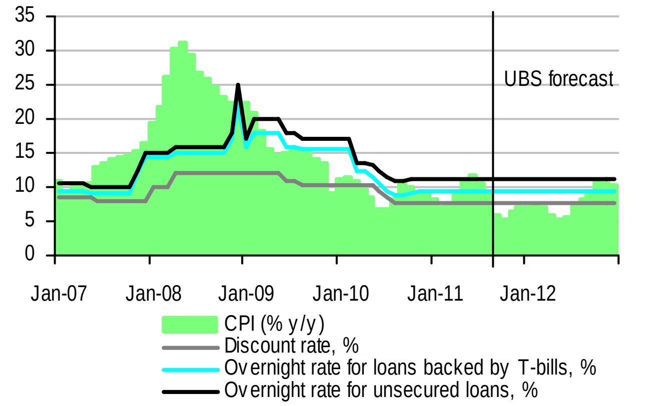
Controlled devaluation of the UAH looks likely; although in a positive scenario it is possible to keep the peg

Chart 27: Current account, FDI, basic balance (% of GDP)



Source: Haver, UBS

Chart 28: Outlook for inflation and policy rates



Source: SSS of Ukraine ,NBU, UBS

As part of the economic adjustment, we expect GDP growth to ease to 3.0% in 2012 and to 3.5% in 2013 from 4.8% in 2011. The drop in global economic momentum and less supportive outlook for steel prices should drag down economic growth. In addition, we anticipate a correction in the strength of consumer spending following the solid 2011 momentum (up by 11%). Our 2012 GDP forecast is more pessimistic than the market consensus of 4.1%.

GDP growth to slow in 2012-13 as a result of easing global growth and a less supportive outlook for steel prices

Progress with the IMF programme (which has been on hold since February 2011) would provide significant support to Ukraine with respect to its ability to react to external shocks. The most important outstanding issue is how to address the quasi-fiscal losses of Naftogaz. The IMF would like to see Ukraine raise domestic gas prices for households, while Ukraine would prefer to negotiate lower gas import charges with Russia and thereby improve Naftogaz's finances. It is difficult to tell at the current junction what the actual solutions would look like, but the IMF has so far been unwilling to move ahead with negotiations without putting Naftogaz's finances on a sustainable track.

Progress with the IMF programme would provide significant support

We expect inflation to average around 8-8.5% in the next two years; however, the actual outcome is highly dependent on the timing and scope of gas price hikes. We do not expect any change in the NBU policy rate in 2012-13. On the fiscal side, due to Naftogaz's large losses, the government deficit including those losses could exceed the targeted 3.5% of GDP in 2011. We expect reductions in the budget deficit in 2012-13.

Inflation to be around 8-8.5% in the next two years

Kazakhstan

Kazakhstan remains an economy with solid external and government balance sheets in an environment of high oil prices: we see Brent oil at US$100 and US$95 per barrel for 2012 and 2013, respectively. As Eurozone growth is likely to slow sharply in the next two years, we expect Kazakhstan's GDP growth to decelerate to 5.5% in 2012 and 6.0% in 2013, from 7.0% this year. The key themes remain unchanged: a) exports and consumption provide a boost to GDP growth on the back of high oil prices; b) the recovery in bank lending is likely to remain sluggish due to very high NPLs; c) the KZT will probably remain under upward pressure, although the NBK will likely oppose any sharp KZT strengthening; and d) government plans for modernization are likely to fuel investment spending.

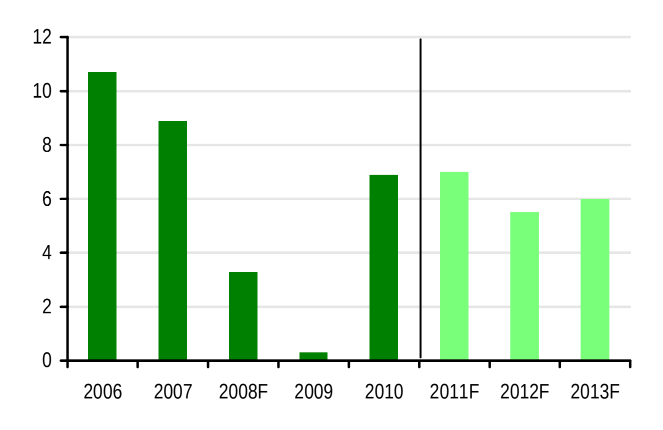
Excellent fiscal and external position

The Kazakh economy boasts robust external and fiscal positions as a result of very high oil prices. On our calculations, the budget balance including the accumulation of assets in the National Fund will be around 4% of GDP in 2011, while the current account surplus could easily exceed 7% of GDP. Public debt remains slightly above 10% of GDP. The combined external assets of the National Oil Fund and National Bank of Kazakhstan amount to US$75bn, or 44% of GDP, more than fully covering the total stock of external debt of US$68bn — excluding intercompany lending.

7% GDP growth in 2011E

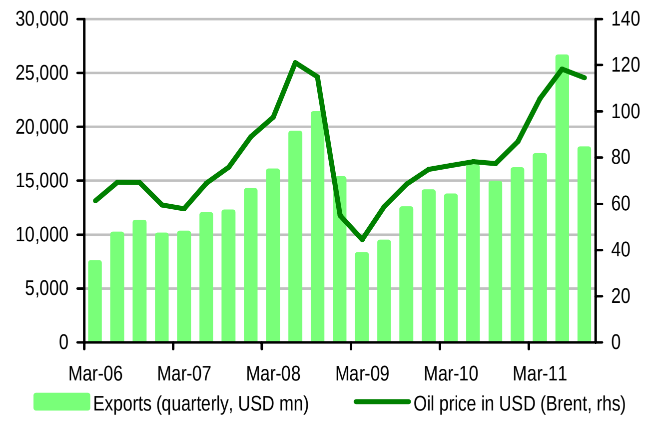
GDP growth is likely to reach 7% in 2011, essentially driven by a rapid increase in household and government consumption. Household consumption should benefit from favourable labour market dynamics: employment was up more than 3% y/y in Q3 2011 and the unemployment rate is approaching 5%. The economy also enjoyed the effect of higher oil prices and rising oil/gas output.

Chart 29: GDP growth (%)



Source: Agency of Statistics, UBS estimates

Chart 30: Exports rebounding with higher oil prices



Source: NBK, UBS

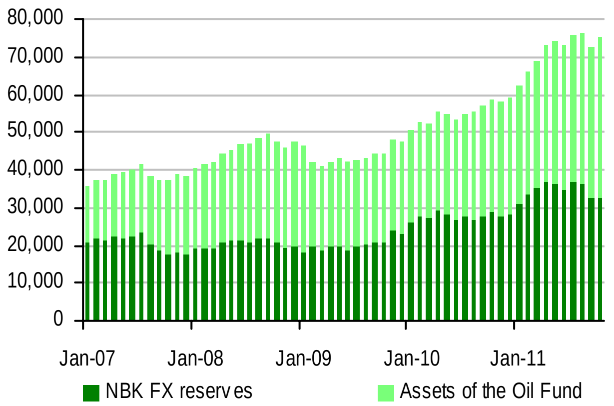
5.5% and 6.0% GDP growth in 2012-13E, driven by high oil prices and consumption

In our view, despite the global slowdown, the drop in Kazakh GDP growth should be relatively modest. We predict 5.5% growth in 2012 and 6.0% in 2013. There are several key assumptions beyond our base case. First, we expect that oil prices will decline only very slowly to US$100 per barrel and to US$95 per barrel in 2012-13, against US$110 per barrel in 2011. These levels should facilitate growth of oil sector output and of related industries such as transport. Second, the healthy labour market outlook in combination with a gradual fall in inflation is likely to boost household consumption by 7% annually in the next two years. Third, some pick-up in investment activity looks likely as Kazakhstan continues to receive decent-sized FDI inflows, in part due to the modernization efforts envisaged in the medium-term government plan (2020). Export momentum will likely be constrained by slower growth in China and the Eurozone (which together account for 50% of Kazakhstan exports). Finally, we do not envisage any meaningful impetus from bank lending due to the existing burden of high NPLs. A key risk for Kazakhstan is a much sharper fall in global activity and oil prices.

Banks to continue deleveraging, NPLs remain very high

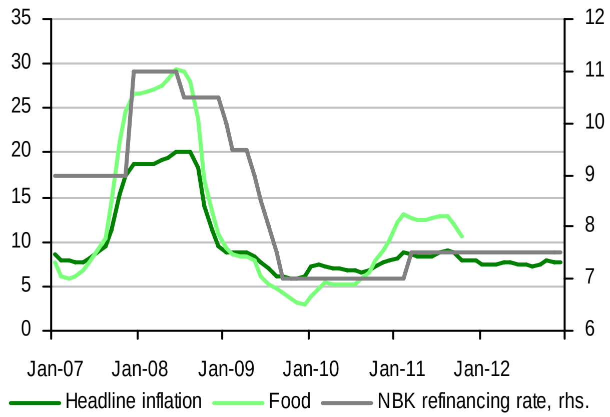
The Kazakh banking system drastically cut its external debt to a third by June 2011 (US$18.6bn in total, short-term only US$1.7bn) from peak levels in late 2007. However, loan quality remains a key drag on banks' ability to generate credit growth. Using the IMF's NPL definition (90-day overdue) the ratio climbed to 25% in Q1 2011 from just c5% at the end of 2008, while there are concerns about the restructured loan portfolio as well. Despite the recent set of measures from the Kazakh government (including a new conceptual plan to deal with problem loans) further steps could become necessary, mainly in the event of external shocks which could challenge the banks.

Chart 31: Combined FX assets of the NBK and the Oil Fund



Source: NBK, UBS

Chart 32: Inflation and policy rate (%)



Source: Agency of Statistics, UBS

Inflation to gradually slow to 7% in 2013; stable policy rate

Inflation is likely to come close to 8.0% y/y at the end of 2011 as a result of food price increases. We expect a gradual slowdown to 7.6% in 2012 and 7.0% in 2013, as a result of some deceleration in economic activity and normalization of food price dynamics. The NBK is likely to keep its policy rate unchanged at 7.50%. As we predict C/A surpluses and FDI inflows to continue in 2012-13, we expect further upward pressure on the KZT. However, in our view, the NBK will only allow for a very gradual strengthening of KZT/USD to 143 by end-2012 and to 140 by 2013.

Good fiscal position

We believe that the budget balance (including the accumulation of assets in the National Fund) will remain in surplus at around 3% of GDP for the next two years. This is the result of the government's efforts to cut the budget deficit in the coming years (from 2.6% of GDP in 2012 to 1.3% of GDP in 2014) assuming oil at US$80 per barrel. At the same time the accumulation of assets in the Oil Fund should slow somewhat in 2012-13.

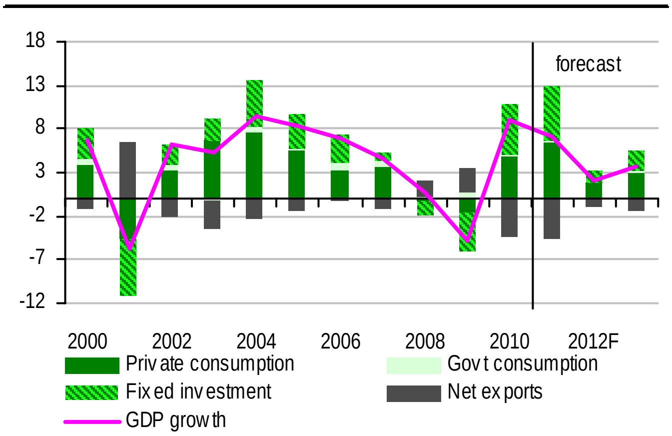
Turkey

Besides a difficult external environment, Turkey is facing additional home-grown problems, above all an unsustainably large current account deficit, uncomfortably high inflation and a shaky currency. Whether Turkey can solve these problems without suffering a hard landing is one of the biggest questions facing the EMEA region going into 2012/13. We think the central bank (CBT) will have to keep liquidity very tight over the coming quarters to stabilise financial market confidence and this will bring about a significant slowdown in growth and a more moderate current account deficit. After 7.1% in 2011 (consensus: 7.0%), we envisage GDP growth of 2.0% in 2012 (consensus: 2.6%) and 3.8% in 2013, but see a clear risk of a 'harder landing' and recession in 2012.

In addition to the weak global environment, Turkey faces many home-grown macro problems

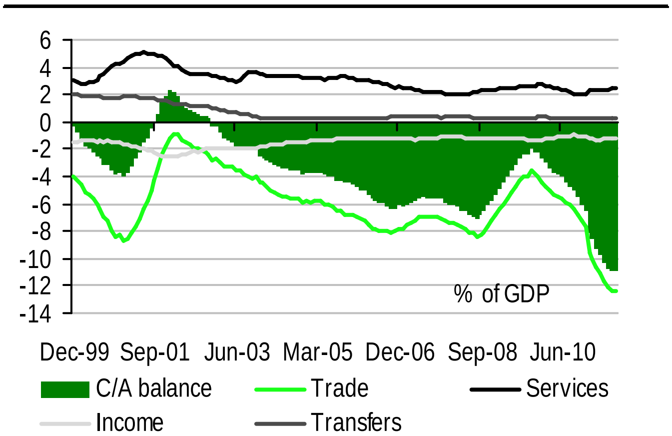
All emerging EMEA countries will struggle with a weak external environment over the coming quarters, but Turkey is facing additional challenges from home-grown problems. Due to very strong growth and a dovish monetary policy, the country has piled up a current account deficit of 10% of GDP, credit growth is running at 35% y/y, the currency has weakened substantially and inflation is rising towards 9-10% – significantly above the CBT's end-2011 target of 5.5% +/-2pp. As a result, investor confidence has been increasingly strained, obliging the CBT to adopt increasingly forceful tightening measures in recent weeks to stabilise the currency and prevent unwelcome capital outflows. While the CBT has kept the key policy rate stable at 5.75%, it has squeezed domestic liquidity in a way that is equivalent to a policy rate hike of several hundred basis points. By avoiding key policy rate hikes, the CBT is following an extremely flexible and ad-hoc approach that allows it to fine-tune its liquidity management, and its support for the fragile TRY, on a daily basis. But the big disadvantage of this strategy is that it makes it extremely hard to predict monetary policy, the liquidity conditions in the economy and, hence, broader macroeconomic developments. So what is our best guess about the coming quarters, then?

Chart 33: GDP growth (%) and contributions to growth (pp)



Source: Turkstat, UBS

Chart 34: Current account and sub-components



Source: CBT, UBS

CBT forced to keep liquidity very tight, thus triggering an economic slowdown

We think Turkey's macro-challenges have reached a degree where the CBT will be forced to keep liquidity very tight if it wants to stabilise the lira at around USD/TRY1.65-1.70. This monetary tightening, combined with a weak external environment, will eventually bring about a substantial slowdown of the Turkish economy. After 10% growth in H1 2011, we expect a deceleration to c4.0-4.5% in H2 2011, which would render a 2011 growth rate of c7%. However, over the coming quarters, domestic demand – so far the main driving force of growth – is likely to slow down a lot more as tighter credit conditions, the weaker lira, and increasingly fragile confidence prompt the private sector to reduce activity. Exports, meanwhile, are unlikely to provide relief, given weak external demand.

We forecast GDP growth of 7.1% (2011), 2.0% (2012) and 3.8% (2013)

As a result, we anticipate a slowdown in growth to perhaps 2% in 2012 (cons. 2.6%), followed by a recovery to 3.8% in 2013E. However, we clearly see the risk to our 2012 growth forecast skewed to the downside: if confidence were to falter and the CBT were forced to tighten monetary policy much further, the 'landing' might be a lot harder and Turkey might well slide into recession.

Economic slowdown should bring a narrowing in the external deficit, but only slowly

The growth performance will determine how quickly the current account deficit narrows. Assuming a moderate slowdown (not a complete collapse) amid a weak external environment, we believe the external deficit will stay rather high, at around 10% of GDP over the coming months, before starting to contract more visibly as of Q2 2012 and end the year 2012E at around 7.5-8.0% of GDP. This would still be uncomfortably high and would imply a continuously high degree of macroeconomic vulnerability over the coming year.

CBT is likely to stabilise the TRY through tight liquidity management

Tight liquidity management of the CBT should imply that the lira will not lose much more of its value on a medium term basis, although short-term risk remains. Our lira forecast is USD/TRY1.75 for end-2012 and 1.65 for end-2013. Assuming USD/EUR to strengthen towards 1.20, this would imply a TRY/basket rate of 2.04 and 1.89, respectively, compared with the current 2.08.

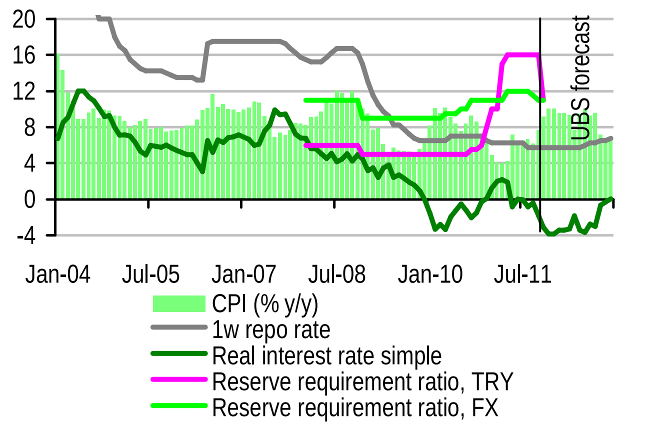
Inflation to stay uncomfortably high

We expect inflation to stay in a range of 8.5-10% until Q3 2012, before declining to 6-7% in Q4 2012 on the back of positive base effects. This implies not just a blatant overshooting of the CBT's end-2011 target of 5.5% +/-2pp, but also of the end-2012 inflation target of 5%.

Will Turkey stay committed to EU-related reforms?

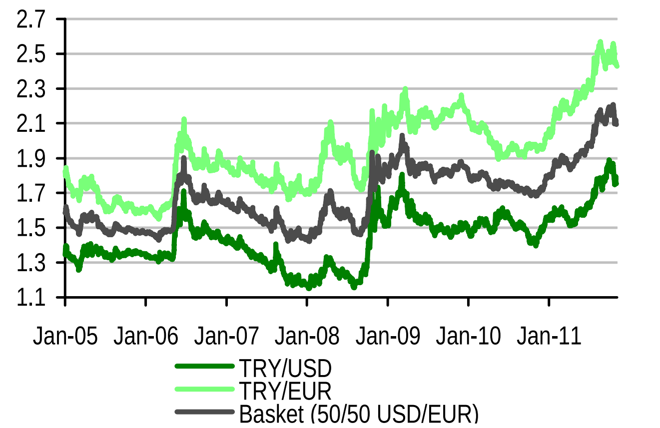
Thanks to its impressive macroeconomic success over the past decade, Turkey has established itself as a role model for many countries in MENA that are now in a complicated process of economic and political change. Amid this new orientation towards the south, we hope Turkey will stay fully committed to its EU membership goal, despite the EU's reluctance to embrace Turkey.

Chart 35: Inflation and policy rate outlook for 2011-12



Source: Bloomberg, UBS

Chart 36: TRY versus USD, EUR and basket (50/50 USD/EUR)



Source: Haver, UBS

Egypt

It might be another year until a new parliament, constitution and president are in place – and this is likely to delay the return of confidence and, hence, economic recovery. We now expect the economy to stagnate in 2011 (consensus: 1.2%), and grow only 3.0% in 2012 (consensus: 3.2%), less than previously assumed. The fiscal deficit will likely remain large and financing will probably pose significant challenges, which could well force the authorities to return to the IMF before too long. The loss of FX reserves continues at a disconcerting pace and could eventually force the CBE to hike rates aggressively and/or accept a potentially substantial depreciation of the EGP, which would stoke inflation and challenge investor confidence.

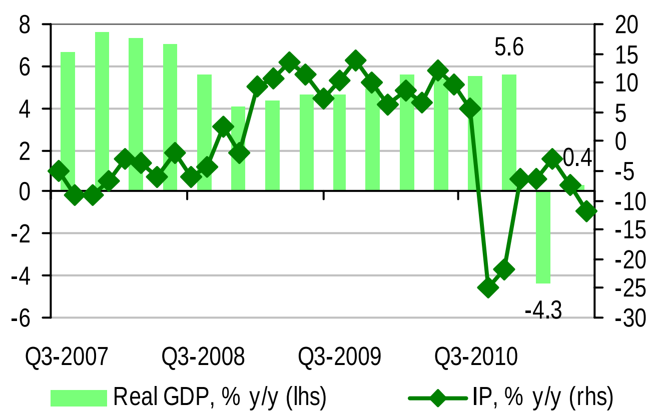
Political upheaval has undermined the stability of the economy

The political transition that started in January 2011 is by no means complete, and will likely take at least another year. The economic fallout has been profound, with many challenges and uncertainties remaining. When the economy launches a strong and self-sustained recovery will depend crucially on whether political developments can lead to a return of stability and confidence.

Elections for upper and lower houses of parliament, drafting of a new constitution, election of a new president

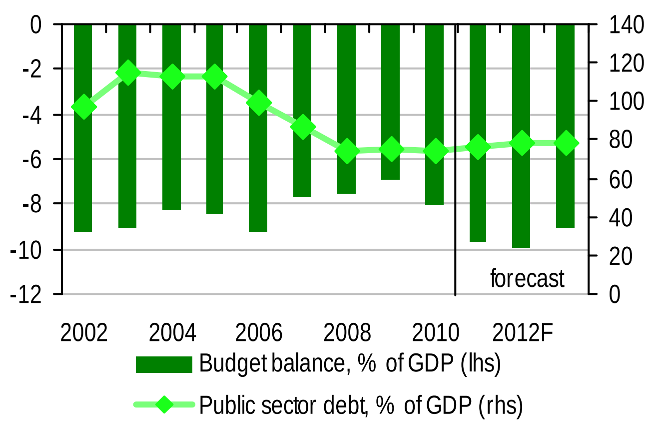
Elections to the (498-seat) lower house of parliament are now expected to take place in three stages: on 28 November, 14 December and 3 January. Two-thirds of the delegates will be elected from party lists (proportional representation) and one-third from constituencies (first-past-the-post system). Elections to the (270-seat) upper house (Shoura Council) will also take place in three stages between 29 January and 24 March 2012. Once both houses of parliament have been elected, they will nominate 100 members of a Constitutional Assembly, which will draft a new constitution over a period of six months. The constitution will then be put to a referendum, likely in October 2012. Once the new constitution is in place, a new president will be elected within 45-60 days, likely in December. The president's tenure will be limited to two terms of four years.

Chart 37: Real GDP and industrial production growth, % y/y



Source: Haver, UBS

Chart 38: Budget balance and public sector debt, % of GDP



Source: Haver, IMF, UBS

We forecast GDP growth of 0% (2011), 3.0% (2012) and 4.5% (2013)

Amid greatly increased uncertainty, economic activity has slowed sharply. After 5.5% growth in calendar 2010, real GDP contracted by 1.9% y/y in H1 2011, as fixed investment and exports suffered sharp declines. Tourism in particular was hit hard. With stability and confidence unlikely to return quickly, we now believe that GDP is likely to stagnate in FY 2011 (previous forecast: +1.0%) before growing again by 3.0% in FY 2012 (previously: 5.5%).

Current account deficits of 1-2% in 2012/13

Egypt's current account is likely to show deficits of 1-2% of GDP in 2011/12, somewhat weaker than in recent years. The main burden is likely to come from the service balance, which has traditionally been in surplus, but is now suffering from weaker tourism receipts. The trade balance is unlikely to worsen by much: while exports are likely to be constrained by weak external demand, imports will probably stay compressed by sluggish domestic confidence.

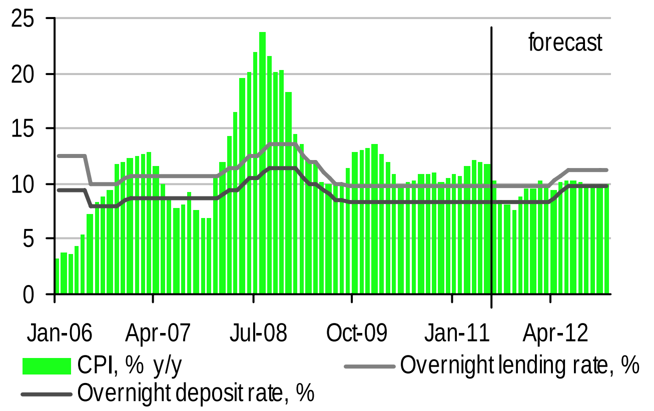
Budget likely to remain strained

The budget deficit rose to 9.7% of GDP in the fiscal year 2010/11 as much weaker economic activity cut into revenues and political pressures led to higher expenditure. We expect the budget situation to remain strained, at least until the economy returns to normality. We therefore believe that the budget deficit target of 8.6% of GDP for 2011/12 is likely to be too optimistic. As a result, we expect public debt to rise towards 78% of GDP by 2012.

Financing challenges to remain significant, making foreign assistance necessary

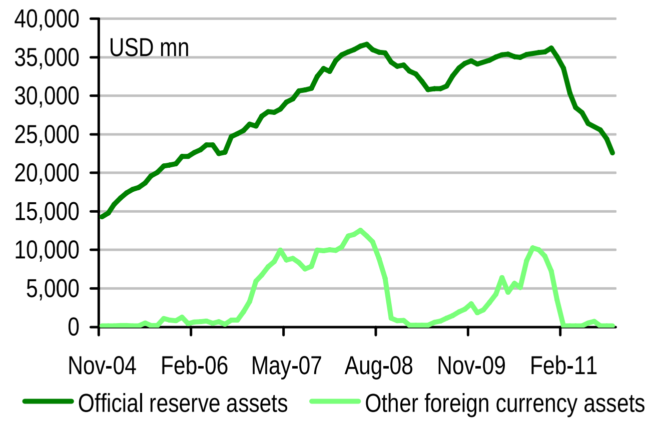
Financing the budget is going to be a significant challenge. So far, the government has relied heavily on domestic banks buying T-bills, but banks' absorption capacity seems to be reaching its limits. The government came close to securing substantial IMF and World Bank funding, but then pulled out at the last minute, for reasons that remain unclear. Instead, the government is now trying to secure financial support from GCC governments and African/MENA multinational institutions. We think Egypt will remain dependent on foreign funding, for not just one but several years, and the government will therefore have no choice but to ask for an IMF programme before too long.

Chart 39: Inflation and monetary policy outlook



Source: Haver, UBS estimates

Chart 40: FX reserves



Source: EMED, UBS

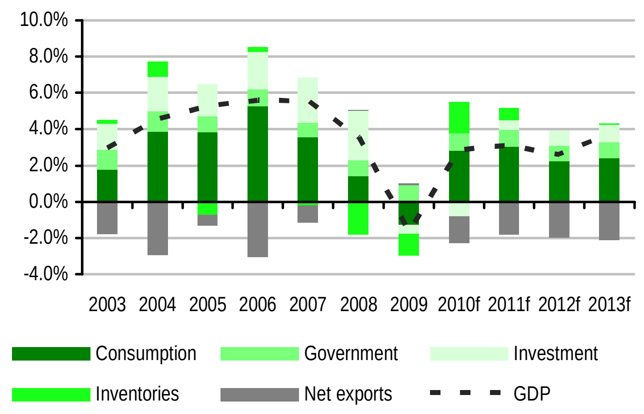
Disconcerting loss of reserves signals heightened exchange rate risk

Secure foreign financing would also be crucial for the stability of the Egyptian pound, which has so far held up impressively, thanks to capital controls and FX interventions. As a result, however, FX reserves and other foreign assets held by the central bank and local banks have fallen by half, to currently US$22.6bn. Should the reserve loss continue, which is a clear risk, in our view, the CBE might finally have to hike rates aggressively – something it has avoided so far – or accept a perhaps substantial depreciation of the EGP. This would not only stoke inflation, but probably also pose a serious challenge to investor confidence, thus further delaying economic recovery.

South Africa

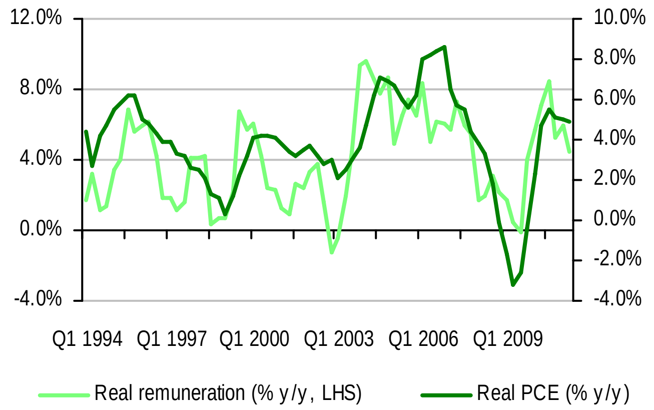
After 3.1% GDP growth in 2011, we expect a slowdown to 2.6% in 2012 and a moderate recovery to 3.7% in 2013 (consensus: 3.2% for 2011, 3.2% for 2012 and 3.9% for 2013). Consumer spending is expected to moderate as income growth slows, but a small recovery in employment should provide a fillip. Investment is expected to recover slowly, but accelerating in 2013. Inflation is likely to remain uncomfortably close to the 6% ceiling, limiting room for further interest rate cuts, and fuelling a slow normalisation in 2013.

Chart 41: Composition of GDP – weak recovery



Source: SARB

Chart 42: Household spending



Source: SARB

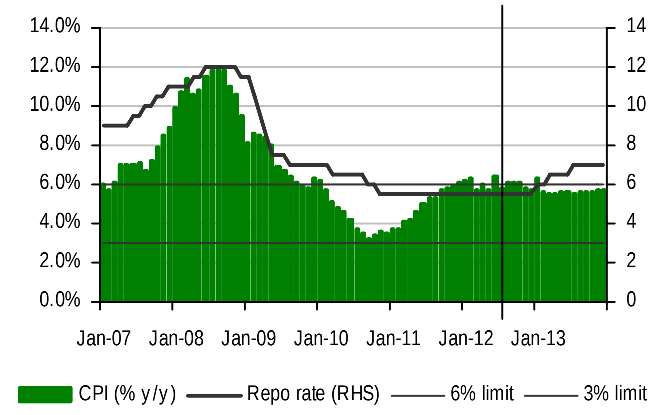
GDP to slow in 2012, recover moderately in 2013 to 3.7%

We forecast GDP growth of 3.1% in 2011, slowing to 2.6% in 2012 and a moderate acceleration to 3.7% in 2013 (consensus: 3.2%, 3.2% and 3.9%). The downward revision to UBS's European growth forecasts will impact domestic growth as South Africa exports 23% of total exports to Europe, with Germany the biggest trading partner. This has shrunk over the last few years as trade to China and Africa have gained relative share, limiting some of the impact on growth. Consumer spending remains the biggest driver of growth, but slower rates of salary increases and rising inflation are eroding purchasing power. This may be partly offset by some recent evidence of a moderate employment recovery. High levels of debt continue to constrain lending, but this is still growing slowly. By 2013, households should be in better shape, with rising real incomes as inflation slows, ongoing employment growth and better balance sheets as deleveraging continues through 2012. Potential upside surprises could come if a) credit growth (both demand and supply) continues to improve and b) house prices stabilise and start to recover with better credit growth.

Outlook for fixed investment a little better; government a drag

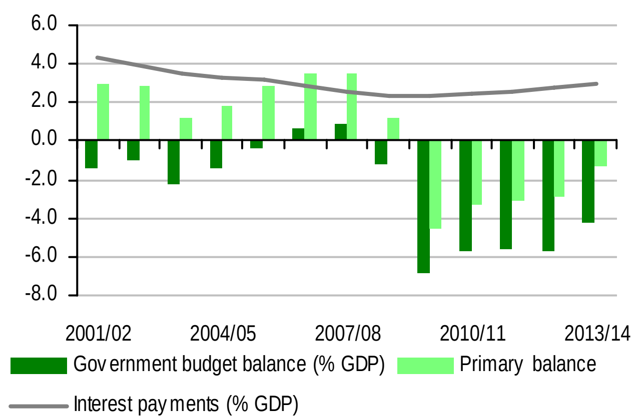
Fixed investment has failed to contribute meaningfully to the recovery. The share in growth from fixed investment fell from a peak of 24.6% of GDP in 2008 to 18.9% in 2011. Government spending has been very weak, hamstrung by local government capacity constraints. National Treasury is trying to monitor delivery more closely, but there is little evidence of any pipeline of government projects emerging. Public corporations – notably electricity supplier Eskom and Transnet – are delivering solid investment spending, but Eskom is behind schedule and electricity supply will remain tight through mid-2012. The private sector is only now starting to spend, despite very high levels of profitability over the last two years but mostly on machinery. This may boost productivity, but it also tends to result in a widening current account deficit as machinery is imported.

Chart 43: CPI and interest rate outlook



Source: Statistics South Africa, UBS estimates

Chart 44: Fiscal forecasts



Source: National Treasury, UBS estimates

ZAR at mercy of global risk, expect moderate 2012 recovery

The exchange rate came under pressure from August 2011, as appetite for risk assets disappeared, and foreign investors started to hedge local currency bond positions. In the near-term, we think there could be some retracing of these losses when risk appetite returns as domestic equities remain attractive and the growth outlook is stable. However, we expect some of this to unwind in 2013 as the current account deficit widens with the recovery in fixed investment. We forecast USDZAR at 8.05 end-2011, 7.80 end 2012 and 8.15 end-2013. Our estimate for the current account deficit is -3.3% of GDP in 2011, -4.1% in 2012 and -5.1% in 2013.

Weaker currency and rising food inflation push CPI above target in 2012

Inflation is expected to rise above the 6% upper target limit by end-2011, and remain at or above this through mid-2012. Rising food prices (both as a result of high maize prices, and a low base in 2010) account for most of the increase, but the weak currency could add 0.3ppts over the year if recent weakness is sustained. Wages and administered prices are an ongoing challenge. The risk, in our view, is that inflation peaks higher and remains high for longer than the market is currently expecting (UBSe 6.2% in 2012, 5.7% in 2013; consensus 5.8% and 5.7%). There is still much debate about whether or not the SARB will cut interest rates again. We think not, and forecast the repo rate on hold until end-2012, before moderate increases to 7.0% in 2013. We think the SARB is tolerant of CPI above 6% (even materially), as long as the shock is viewed as temporary and expectations do not move over 6% for the medium-term. However, wages are responsive to food prices, and the union movement is visible and active. The longer CPI is above target and core prices are rising, the harder it will be to maintain easier monetary policy.

Ballooning wage bill difficult to shrink – fiscal deficits to persist

The fiscal position has become very tight. The deficit is forecast to be -5.6% of GDP in 2011/12, -5.3% in 2012/13.and -4.7% in 2013/14. The problem is that rising debt and big increases in the public sector wage bill have increased the total recurrent spending to an inflexible 55.7% of total. This balance will be politically difficult to change.

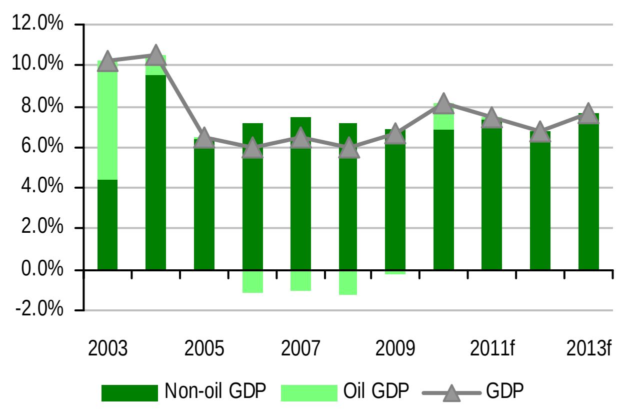
Nigeria

Economic prospects in Nigeria remain constructive, despite the risks to global growth. New GDP weights will be released in early-2012, which could materially change the estimated size and GDP composition of the economy. We forecast GDP of 7.5% in 2011, and 6.7% in 2012 (consensus: 7.3% and 7.2% respectively) and 7.3% in 2013. The economy is internally focussed with exports concentrated in oil and domestic growth driven mostly by agriculture. Fiscal policy will remain challenged by heavy dependence on oil revenues, and a large public sector wage bill. We expect CPI inflation to stay uncomfortably above the targeted 10% y/y through end-2013, and for monetary policy to remain tight. The NGN is expected to weaken moderately.

Non-oil growth well supported, real GDP forecast of 6.7% for 2012, 7.3% for 2013

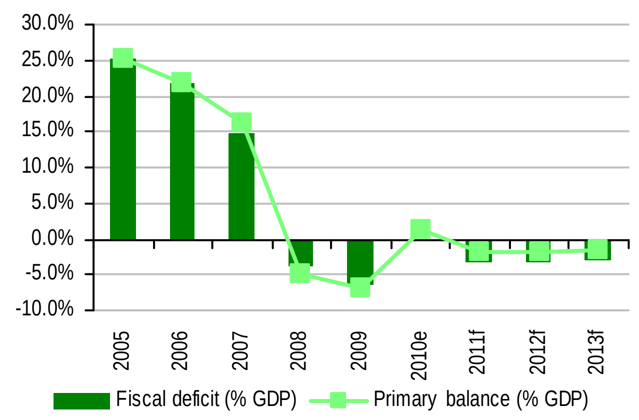
Nigeria has announced that it will release re-based GDP data in January 2012 (from 1990 to 2008). This could materially alter the estimated size of the economy and the composition of GDP, with an increase in service sectors, and a decline in the primary sectors weights. For now, we expect GDP growth to be 7.5% in 2011, and 6.7% and 7.3% in 2012 and 2013 respectively (consensus 7.3% and 7.2% in 2011 and 2012). The economy is reasonably diversified, with non-oil sectors accounting for 84% of real GDP and the oil sector 16%. Ongoing strong performance by the agricultural sector has been a big contributor to GDP in 2011. Initiatives by the Central Bank of Nigeria to provide access to funding for farmers should provide support, and for now we forecast positive output from the sector. Telecommunications are still growing strongly as spending and investment continues and trade sectors have been doing well due to increased government spending. The impact of higher minimum wages will sustain momentum into 2012, before it slows in 2013. We do not expect much contribution from the oil sector, which has recently been a positive contributor to growth as supply has increased.

Chart 45: GDP growth and forecast



Source: IMF, Haver, UBS estimates

Chart 46: Fiscal position and forecast

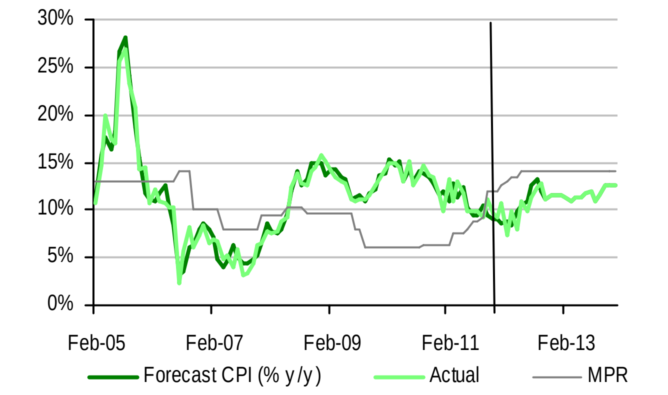


Source: IMF, IIF, Haver, UBS estimates

Fiscal balance set to remain in deficit medium-term

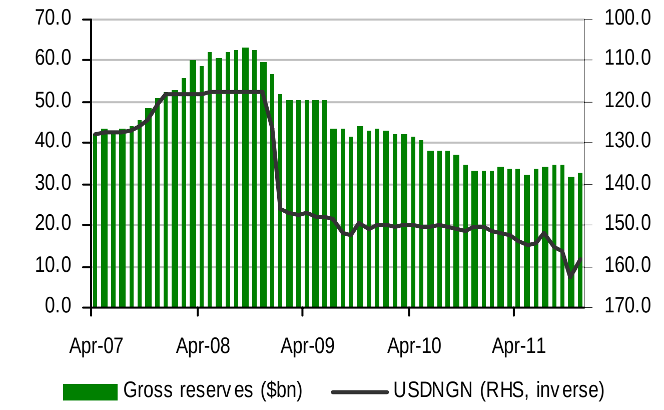
Generating longer-term better-quality growth will depend on delivery of infrastructure reform. Unlike the economy, government finances are not diversified, either in its sources of revenue (80% oil) or its composition of expenditure. Having run several years of healthy fiscal surpluses, the deficit peaked in 2009 at -7.8% of GDP, recovered somewhat to -2.8% in 2010, and is estimated at -3.1% in 2011. The biggest challenge is to diversify sources of revenue (there is no complete tax register) and moderate the level of recurrent expenditure which consumes about 70% of the total. The preliminary submission for the 2012 Budget sets an oil price at $75pbl, with supply at 2.5mbd. This may be revised a little lower to $70pbl, but the supply estimate is arguably more important, and leaves little room for manoeuvre. Positively, Parliament voted in favour of phasing out the fuel subsidy, on which government spends NGN1.2tr ($7.6bn) per annum, but the proposed start date of January 2012 is being challenged by protests.

Chart 47: Inflation and interest rates



Source: Haver,

Chart 48: Reserves and exchange rates



Source: Haver, CBN, FDHL Analystics

High government spending keeps inflation above target

Inflation in Nigeria has ticked up, mostly as a result of recent increases in food inflation, which carries a 51.8% weight in the basket. While the high base could help offset short-term pressures into early-2012, the multiple challenges of heady increases in government spending, rising import penetration, the weaker exchange rate and the impact of the removal of the fuel subsidy will keep inflation uncomfortably above the CBN's loose sub-10% target range in 2012 and into 2013. We forecast CPI at an average of 10.6% in 2011, 10.7% in 2012 and 11.8% in 2013.

Monetary policy to remain tight, we expect weaker currency

The challenge for monetary policy is to maintain a credible policy for targeting inflation, which partly involves managing its policy on the exchange rate. A combination of low interest rates, excessive government spending, anomalies involving demand for USD from the International Oil Companies worked together to increase demand for USD and has put pressure on the exchange rate though 2011. Despite the high oil price, the central bank had insufficient foreign exchange to meet the increased demand, and has used reserves to meet the shortfall. This has led to a depletion of the bank's reserves holdings and steady increases in the monetary policy rate. In October after a surge in demand for foreign exchange the CBN called an extraordinary meeting and raised the monetary policy rate by 275bps to 12%, forcing negative real rates into neutral territory. We expect further (more moderate) rate hikes in 2012, and for monetary policy to remain tight in 2013. We also expect the CBN to announce a change in exchange rate policy to allow a wider band around a weaker USDNGN exchange rate (currently +/-3% around 150) and forecast 155.8, 164.0 and 167.3 for 2011, 2012 and 2013 respectively.

UAE

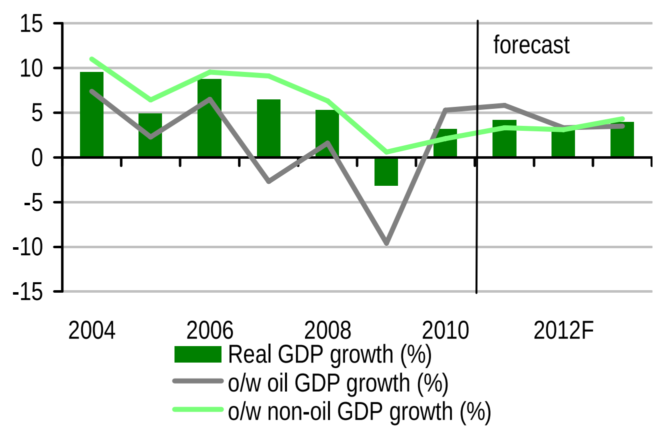
After 3.2% in 2010 and a better-than-previously-expected 4.2% in 2011E, we project the UAE to grow by 3.2% and 4.0%, respectively, in 2012/13. While Abu Dhabi benefits from stronger oil production and public spending, Dubai has seen decent activity in logistics, trade and tourism, and even feeling the first signs that the headwinds from real estate and construction are easing. This should also support the recovery in credit growth. Oil prices of US$100-95/bbl in 2012/13 imply ongoing budget and current account surpluses, and further reserve accumulation.

We forecast GDP growth of 4.2% (2011), 3.2% (2012) and 4.0% (2013)

Amid turbulence and tension elsewhere in MENA, the UAE has been quiet and the economic recovery has continued. Following 3.2% in 2010, we now expect a GDP growth rate of 4.2% for 2011 (previous forecast: 3.2%). Activity in Abu Dhabi is boosted by higher oil production (and oil prices) and by ongoing strong public spending, above all for infrastructure. Dubai, meanwhile, has enjoyed stronger activity in its key sectors of logistics and trade, travel and tourism. The headwinds from the real estate and construction sector in Dubai finally seem to be abating. After a lot of supply has been hitting the market in recent quarters, there are now signs that property prices are bottoming out; this should also help the banking sector, which has seen a steady rise in NPLs to currently around 7.5%. Credit growth has been very weak over the past three years, but it is now showing initial signs of a recovery. As a result of deleveraging and deposit inflows (anecdotally also flight capital from other MENA countries), loan-to-deposit ratios in the UAE banking sector have declined to less than 100% and thus granted banks some more breathing space. Inflation remains low, at 2-3%.

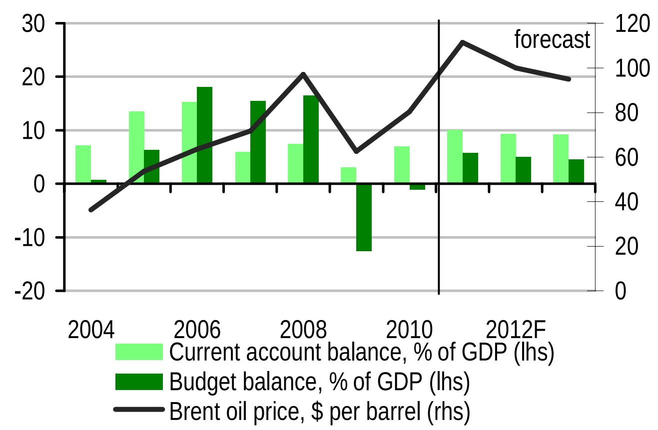
For 2012 and 2013, we project UAE GDP growth rates of 3.2% and 4.0% respectively. While the recovery in Dubai should continue, albeit with headwinds from a soft global environment, Abu Dhabi is likely to see lower growth rates in both oil production and public spending.

Chart 49: Real GDP growth, %



Source: National Bureau of Statistics, Haver, UBS

Chart 50: Budget and C/A balance and oil price



Source: IMF, IIF, Haver, UBS

High oil prices to generate sizeable fiscal and current account surpluses

Despite a soft global environment, UBS assumes that oil prices will stay high in 2012/13, at US$100-95/bbl, and this bodes well for UAE's fiscal and external balances and FX reserve accumulation. We expect the budget to post surpluses of around 4-5% of GDP in 2012/13 (after c6.0% of GDP in 2011E); the current account should be even stronger, with continued surpluses around 10% of GDP. This would also imply a further rise in the UAE's external assets. Nevertheless, the budget surplus should not mask the fact that, following a steady rise in recent years, the budget breakeven oil price is now above US$80/bbl, which implies rising budget risks in case of sharp oil price declines. According to the IMF, a change in the price of oil by US$10/bbl will change the UAE's current account and budget balance by c4% of GDP.

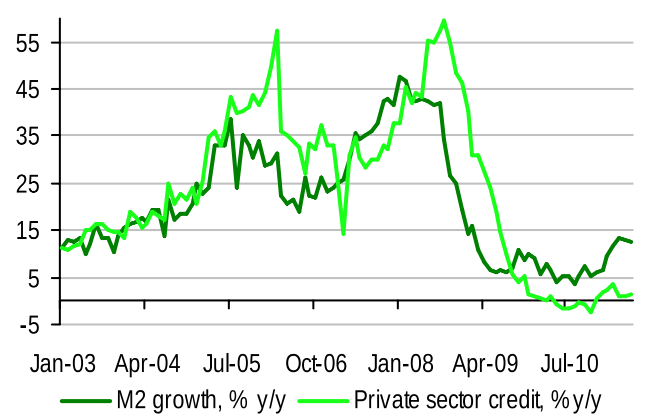
Dubai's redemption schedule remains challenging

According to the IMF, Dubai's debt now stands at US$113bn or 102.6% of GDP. The Emirate is facing redemptions of US$15.2bn in 2012, a little less than in 2011.

Oil-exporters in a more comfortable position than many oil-importers

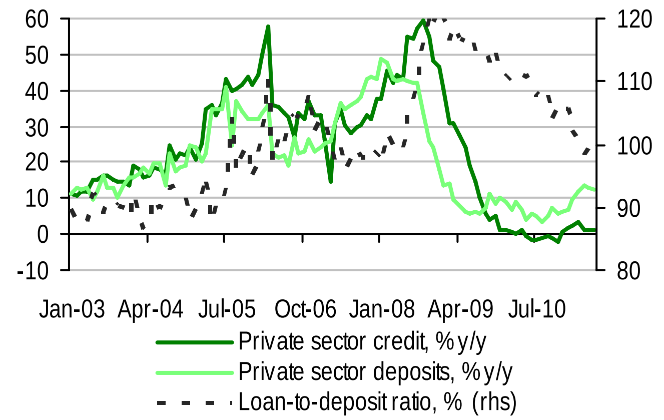
Overall, the UAE underlines a broader trend in MENA: Oil-*exporting* countries, above all the GCC, are doing well, while many of the oil-*importing* countries (such as Egypt and Tunisia) are struggling, as the effects of the poor external environment are compounded by the uncertainty and disruptions related to domestic political upheaval.

Chart 51: Money supply and private sector credit, % /yy



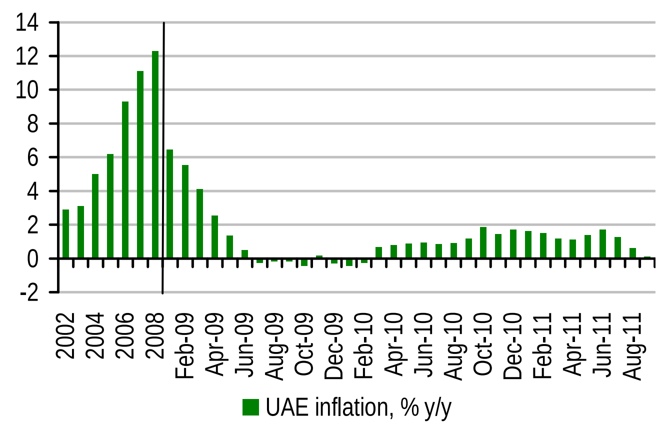
Source: Haver, UBS

Chart 52: Private sector credit and deposits



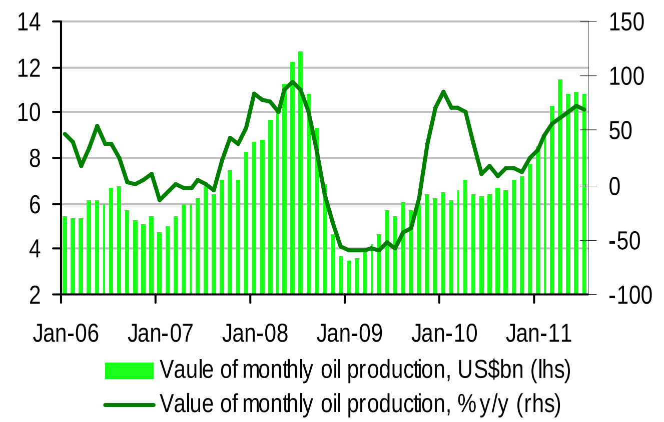
Source: Haver, UBS

Chart 53: Inflation, % y/y



Source: Haver, UBS

Chart 54: Value of UAE oil production, US$ bn



Source: US Energy Information Administration, Haver, UBS

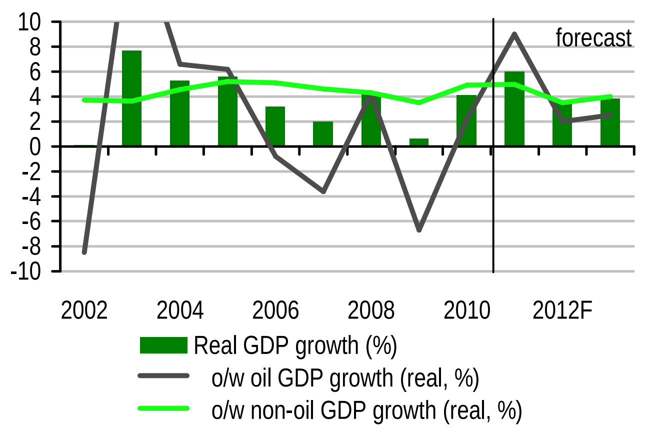
Saudi Arabia

The Saudi economy seems to be on track to grow by 6% in 2011 (consensus: 6.2%), boosted by higher oil production and an extensive fiscal package, rolled out in an effort to prevent a spillover of political unrest to the Kingdom. We expect growth to decelerate to 3.5% in 2012 (consensus: 4.6%) and 3.8% in 2013. Amid very strong oil revenues, the fiscal and current account balances are boasting large surpluses which are likely to stay in place in 2012/13 too. Yet, the budget breakeven oil price has risen strongly in recent years to around US$85 now, which implies growing vulnerabilities from a potential fall in oil prices.

We forecast GDP growth of 6.0% (2011), 3.5% (2012) and 3.8% (2013)

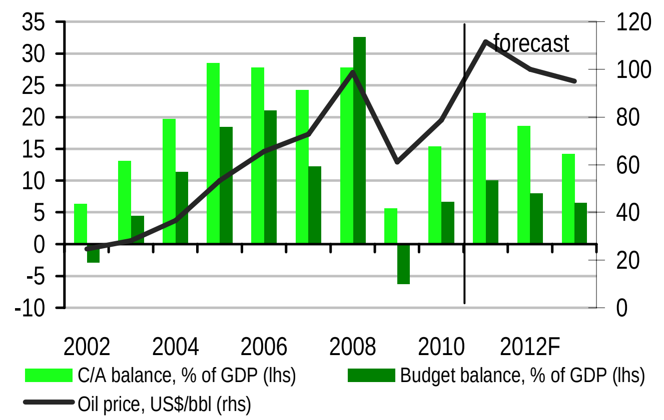
After 4.1% growth in 2010, we expect Saudi real GDP to expand by an impressive 6% in 2011E (consensus: 6.2%). At least three factors are driving this outcome. Firstly, the Kingdom increased its oil output by around 9% this year, to 9mbd, in an attempt to make up for supply shortages caused by the revolution in Libya. As such, Saudi Arabia has once again performed the role of the 'central bank of oil' as the only country in the world with extensive spare capacity in oil production. Secondly, Saudi authorities launched a very substantial fiscal stimulus in Q1, in an attempt to prevent a spillover of popular discontent to Saudi Arabia from Bahrain and elsewhere in MENA. The full package, worth about SAR460bn (US$122.7bn) or 22% of 2011 GDP will be spent over a number of years, but a good part has already been rolled out during 2011, not least for public employment and salaries and the initial phase of a public housing programme. The government income support has also lead to a significant rise in household consumption. Thirdly, higher oil prices have lifted private sector confidence and have supported liquidity in the banking sector, which is gradually feeding into stronger credit growth and economic activity. Going forward, we expect economic activity to decelerate as growth in the oil sector slows and the initial impact of the government's fiscal stimulus fades. Still, we expect GDP to grow by 3.5% in 2012 (consensus: 4.6%) and 3.8% in 2013.

Chart 55: Real GDP and structure of growth



Source: SAMA, Haver, UBS

Chart 56: Budget balance, CA (% of GDP) and oil price ($/bbl)



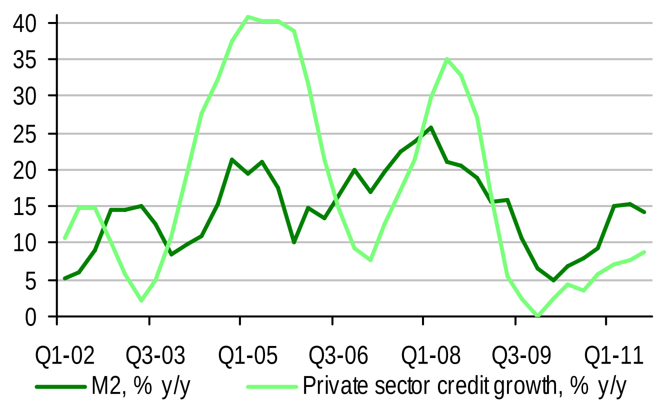
Source: SAMA, Haver, UBS

Very strong fiscal balance but dependence on high oil prices is rising

Funding much higher spending has not been a problem amid very strong oil revenues. According to a rule of thumb, a rise in the oil price by US$10/bbl will raise Saudi's fiscal balance by 5.5% of GDP and its current account balance by

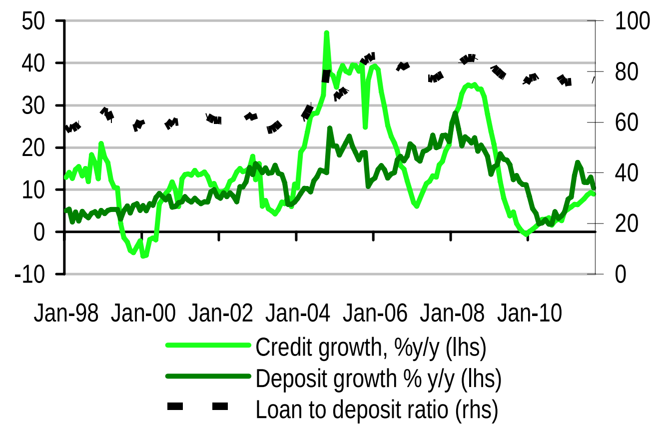
7% of GDP. We expect a fiscal surplus of 10% of GDP in 2011 and 6-8% of GDP in 2012/13, assuming oil prices of US$100-95/bbl. Yet, given the structural rise in spending, the longer term risks from falling oil prices have risen substantially. Saudi Arabia's budget breakeven is now at around US$85/bbl, up from cUS$65/bbl in 2010 – this implies rising vulnerability.

Chart 57: M2 and private sector credit growth



Source: SAMA, Haver, UBS

Chart 58: Credit and deposit growth; loan-deposit ratio (%)

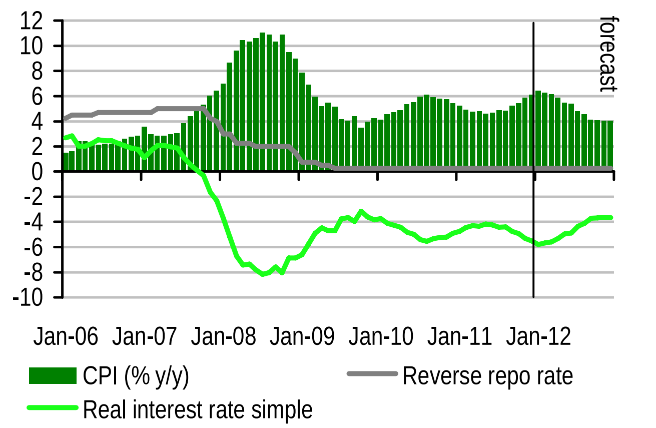


Source: Haver, UBS

Large current account surplus, rising FX reserves

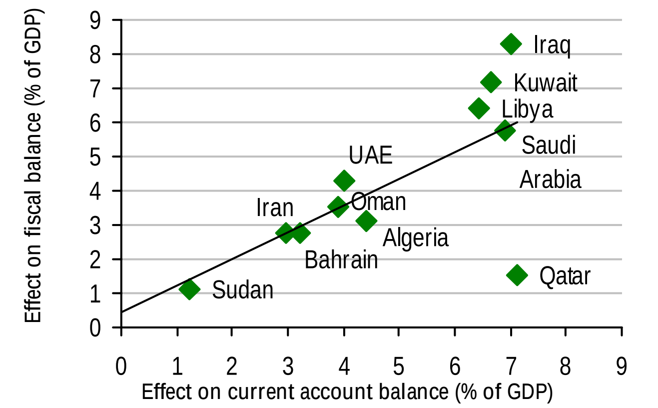
Saudi Arabia's current account balance has also received a boost from oil prices and we expect a surplus of up to 20% of GDP in 2011, after 15% of GDP in 2010. Surpluses of at least 10-15% of GDP in 2012/13 are likely to bring about a further rise in the Kingdom's FX reserves, which currently stand at US$523bn. Inflation remains higher-than-desired, at 5-6%, due to supply bottlenecks, above all in housing and the strong fiscal boost. We do not expect much of a deceleration in 2012/13.

Chart 59: Inflation, policy rates and interest rates



Source: SAMA, Haver, UBS

Chart 60: Impact of a US$10/barrel increase in oil prices, 2010



Source: IMF, Regional Outlook, Middle East and Central Asia, October 2010, p. 15

Annex tables

Poland

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activities									
GDP (PLNbn)	983.3	1060.0	1176.7	1275.4	1343.7	1412.8	1529.5	1618.0	1723.2
GDP (USDbn)	303.5	347.5	426.2	529.4	431.2	467.8	523.7	500.8	539.0
GDP per capita (USD)	7961	9124	11197	13910	11329	12291	13759	13158	14163
Real GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.8	4.0	2.9	3.4
Private consumption (%)	2.1	5.0	4.9	5.7	2.1	3.2	3.5	2.5	3.0
Government consumption (%)	5.2	6.0	3.7	7.4	2.0	3.5	1.0	0.0	1.0
Capital formation (%)	6.5	14.9	17.6	9.6	-1.1	-2.0	7.0	3.0	4.5
Exports (%)	8.0	14.6	9.1	7.1	-6.8	10.2	7.0	4.0	6.5
Imports (%)	4.7	17.3	13.7	8.0	-12.4	10.7	6.5	2.5	5.0
Industrial production (%)	3.4	12.1	9.7	5.5	-3.2	11.5	7.5	2.0	5.0
Unemployment rate (year-end, %)	17.6	14.8	11.2	9.5	12.1	12.3	12.2	12.0	11.7
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	2.1	1.0	2.5	4.2	3.5	2.6	4.1	2.8	3.0
Consumer price inflation (year-end, %)	0.7	1.4	4.0	3.3	3.5	3.1	4.0	2.9	3.0
Broad money, M2 (year-end, %)	11.0	15.8	14.2	20.0	8.3	8.0	9.0	7.0	7.0
Benchmark rate (year-end, %)	4.50	4.00	5.00	5.00	3.50	3.50	4.50	4.50	4.50
10yr bond yield, %	5.10	5.20	6.00	5.40	6.20	6.00	5.80	5.70	5.50
Exchange Rates									
USD/PLN (average)	3.24	3.05	2.76	2.41	3.12	3.02	2.92	3.23	3.20
USD/PLN (year-end)	3.27	2.90	2.44	2.96	2.85	2.96	3.30	3.20	3.17
EUR/PLN (average)	4.03	3.85	3.78	3.52	4.33	3.99	4.06	4.20	3.90
EUR/PLN (year-end)	3.86	3.83	3.58	4.17	4.11	3.96	4.45	4.00	3.80
REER (average, 2000=100)	108.2	110.0	113.0	121.0	97.0	107.0	107.0	101.7	106.7
Balance of Payments									
Exports, fob (USDbn)	96.5	117.7	145.1	156.7	141.4	165.9	194.1	193.0	200.7
Imports, fob (USDbn)	99.6	125.1	164.0	182.1	149.0	177.7	210.3	205.6	209.4
Trade balance (USDbn)	-3.1	-7.3	-18.9	-25.4	-7.5	-11.8	-16.2	-12.6	-8.7
Current account (USDbn)	-7.3	-13.1	-26.4	-35.0	-16.9	-21.0	-25.9	-19.1	-16.0
as a % of GDP	-2.4	-3.8	-6.2	-6.6	-3.9	-4.5	-4.9	-3.8	-3.0
FDI, net (USDbn)	6.9	10.8	18.1	10.4	8.4	3.2	4.2	3.9	6.1
Foreign exchange reserves (USDbn)	38.8	45.0	65.7	61.4	79.5	96.2	102.6	100.0	100.8
Import cover (reserves/months of imports)	4.7	4.3	4.8	4.0	6.4	6.5	5.9	5.8	5.8
Fiscal Accounts									
General government balance, ESA95 (PLNbn)	-42.3	-38.2	-22.4	-47.2	-98.1	-111.6	-95.0	-56.6	-51.7
General government balance (% GDP)	-4.3	-3.6	-1.9	-3.7	-7.3	-7.9	-5.5	-3.5	-3.0
Primary balance (% GDP)	-0.1	-0.2	0.5	-1.3	-4.9	-5.3	-2.9	-0.9	-0.4
Public sector debt, ESA95 (% GDP)	47.1	47.7	45.0	47.2	50.9	54.9	57.0	55.6	53.0
Domestic debt (% GDP)	36.5	37.6	34.7	36.0	39.5	41.9	43.0	41.6	39.0
External debt (% GDP)	10.6	10.1	10.3	11.2	11.4	13.0	14.0	14.0	14.0
External Debt and Debt Service									
Total foreign debt excluding intercompany loans (USDbn)	109.9	135.2	185.3	194.7	224.3	245.1	279.1	263.4	275.4
as a % of GDP	36.2	38.9	43.5	36.8	52.0	52.4	53.3	52.6	51.1
Short-term foreign debt (USDbn)	27.0	34.6	60.3	64.0	70.0	76.1	89.0	82.5	82.5
Total debt service (USDbn)	34.7	43.1	63.7	35.2	19.2	29.9	25.1	24.4	28.3
as a % of foreign export receipt	36.0	36.6	43.9	22.5	13.6	18.1	12.9	12.6	14.1
Interest payments (USDbn)	3.3	4.2	5.1	5.3	6.5	3.7	5.8	6.5	9.2
Amortization (USDbn)	31.4	38.9	58.6	29.9	12.7	26.2	19.3	17.9	19.2
Credit Ratings (year-end & latest)									
Moody's	A2	A2	A2	A2	A2	A2	A2(sta)	n/a	n/a
S&P	BBB+	A-	A-	A-	A-	A-	A-(sta)	n/a	n/a
Fitch	BBB+	A-	A-	A-	A-	A-	A-(sta)	n/a	n/a

Source: NBP, GUS, IIF, UBS estimates

Hungary

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activities									
GDP (HUFbn)	21,971	23,730	25,321	26,754	26,054	27,120	28,545	29,950	31,403
GDP (USD bn)	110.0	112.7	137.7	155.7	128.8	130.3	145.7	137.8	139.3
GDP per capita (USD)	10895	11161	13638	15419	12754	12903	14422	13646	13793
Real GDP growth (%)	3.2	3.6	0.8	0.8	-6.7	1.2	1.5	0.5	1.5
Private consumption (%)	3.2	2.1	0.2	0.5	-8.1	-2.1	0.0	-0.5	0.0
Government consumption (%)	2.2	3.7	-7.3	1.0	-0.1	-1.7	0.0	-2.5	0.0
Capital formation (%)	5.7	-3.2	1.7	2.9	-8.0	-5.6	-4.0	-0.5	2.0
Exports (%)	11.3	18.6	16.2	5.7	-9.6	14.1	9.5	3.0	5.0
Imports (%)	7.1	14.8	13.3	5.8	-14.6	12.0	8.0	1.5	4.0
Industrial production (%)	7.5	10.8	9.0	0.8	-17.7	9.0	6.0	1.0	3.0
Unemployment rate (%)	7.3	7.5	7.4	7.8	10.0	11.2	10.9	10.8	10.5
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	3.6	3.9	7.9	6.1	4.2	4.9	3.7	4.4	3.3
Consumer price inflation (year-end, %)	3.3	6.5	7.3	3.5	5.6	4.5	3.2	4.0	3.0
Broad money M2 (year-end, %)	13.1	11.9	8.7	10.2	0.9	0.0	0.0	0.0	1.0
Benchmark rate (year-end, %)	6.0	8.0	7.50	10.00	6.25	5.75	6.00	6.00	6.00
10 year bond yields (HUF, year-end, %)	7.0	6.8	6.9	8.3	7.7	7.9	7.7	7.4	7.2
Exchange Rates									
USD/HUF (average)	199.7	210.5	183.8	171.8	202.3	208.1	196.0	217.3	225.4
USD/HUF (year-end)	213.0	190.3	172.3	187.9	188.1	208.7	211.1	224.0	225.0
EUR/HUF (average)	248.0	264.3	251.3	251.3	280.6	276.1	272.4	282.5	275.0
EUR/HUF (year-end)	252.7	251.2	253.4	264.8	270.8	278.8	285.0	280.0	270.0
REER (2000=100)	131.8	126.4	141.5	148.0	139.1	141.9	143.3	137.6	141.7
Balance of Payments									
Exports, fob (USDbn)	61.8	73.6	93.7	106.0	79.7	91.5	104.6	97.7	93.0
Imports, fob (USDbn)	64.9	76.7	93.9	107.8	76.5	87.2	98.7	91.1	87.4
Trade balance (USDbn)	-3.2	-3.1	-0.2	-1.8	3.3	4.3	5.9	6.6	5.6
Current account (USDbn)	-8.3	-8.6	-9.5	-11.4	-0.3	1.4	2.9	4.0	2.5
as a % of GDP	-7.6	-7.6	-6.9	-7.3	-0.2	1.1	2.0	2.9	1.8
FDI, net (USDbn)	5.5	2.9	0.3	4.1	-0.6	0.8	3.5	3.9	3.7
Foreign exchange reserves excl. gold (USDbn)	18.5	21.0	24.1	33.4	44.2	45.4	47.3	40.0	38.4
Import cover (reserves/months of imports)	3.4	3.3	3.1	3.7	6.9	6.2	5.7	5.3	5.3
Fiscal Accounts									
General government budget balance (HUFbn)	-1714	-2207	-1266	-990	-1172	-1139	571	-899	-942
General government budget balance (% GDP)	-7.8	-9.3	-5.0	-3.7	-4.5	-4.2	4.0	-3.0	-3.0
Primary balance (% GDP)	-3.7	-5.4	-0.6	0.5	-0.2	0.1	6.3	1.0	1.0
Public debt (% GDP)	61.7	65.6	66.1	72.3	78.4	80.2	75.0	74.0	73.0
Domestic debt (% GDP)	44.2	47.1	47.6	46.0	40.6	41.6	41.0	42.5	42.0
External debt (% GDP)	17.5	18.5	18.5	26.3	37.8	38.6	34.0	31.5	31.0
External Debt and Debt Service									
Total foreign debt excluding intercompany loans (USDbn)	73.1	96.9	128.6	141.3	150.3	143.9	160.2	140.6	133.7
as a % of GDP	66.4	86.0	93.4	90.7	116.7	110.4	110.0	102.0	96.0
Short-term foreign debt (USDbn)	18.6	22.5	33.1	27.6	28.7	33.4	33.0	33.0	33.0
Total debt service (USDbn)	11.4	10.8	13.7	21.7	20.8	21.3	26.9	22.4	21.9
as a % of foreign export receipt	18.5	14.7	14.6	20.5	26.1	23.3	25.7	23.0	23.5
Interest payments (USDbn)	3.2	3.7	5.1	8.4	6.6	6.6	7.6	7.2	7.2
Amortization (USDbn)	8.2	7.1	8.6	13.3	14.3	14.7	19.3	15.3	14.6
Credit Ratings (year-end & latest)									
Moody's	A1	A2	A2	A3	Baa1	Baa3	Baa3(neg)	n/a	n/a
S&P	A-	BBB+	BBB+	BBB	BBB-	BBB-	BBB-(neg)	n/a	n/a
Fitch	BBB+	BBB+	BBB+	BBB	BBB	BBB	BBB(sta)	n/a	n/a

Source: KSH, NBH, Ministry of Finance, Eurostat, IIF, Bloomberg, Moody's, S&P, Fitch, UBS estimates.

Czech Republic

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activities									
GDP (CZKbn)	2 ,984	3,222	3,535	3,689	3,626	3,670	3,829	3,980	4,132
GDP (USDbn)	124.6	143.4	174.5	217.8	190.3	192.0	216.4	210.3	210.1
GDP per capita (USD)	12155	13937	16906	21042	18383	18554	20905	20320	20296
Real GDP growth (%)	6.3	6.8	6.1	2.5	-4.1	2.3	2.4	1.0	1.8
Private consumption (%)	2.5	5.0	4.8	3.6	-0.3	0.4	0.0	1.0	1.5
Government consumption (%)	2.9	1.2	0.7	1.0	2.6	0.3	-1.5	-1.0	0.0
Capital formation (%)	1.8	6.0	10.8	-1.5	-7.9	-4.6	4.0	1.5	1.5
Exports (%)	11.6	15.8	15.0	6.0	-10.8	18.0	10.0	2.5	4.0
Imports (%)	5.0	14.3	14.3	4.7	-10.6	18.0	9.0	2.0	3.5
Industrial production (%)	6.7	11.2	8.8	0.7	-13.0	9.5	7.5	1.0	3.0
Unemployment rate (%)	7.9	7.1	5.3	4.4	6.6	7.6	7.0	7.0	7.0
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	1.9	2.5	2.8	6.4	1.0	1.5	1.9	2.9	2.0
Consumer price inflation (year-end, %)	2.2	1.7	5.4	3.6	1.0	2.3	2.0	2.8	2.0
Broad money (end-year, %)	10.6	13.4	15.0	14.0	0.7	2.2	1.0	0.0	2.0
Benchmark rate (year-end, %)	2.00	2.50	3.50	2.25	1.00	0.75	0.75	0.75	0.75
10 year bond yields (CZK, year-end, %)	3.80	3.72	4.68	4.10	4.00	3.97	3.20	3.50	3.70
Exchange Rates									
USD/CZK (average)	23.9	22.5	20.3	16.9	19.1	19.1	17.7	18.9	19.7
USD/CZK (year-end)	24.7	20.8	18.1	18.9	18.4	18.8	19.0	19.4	19.8
EUR/CZK (average)	29.8	28.3	27.8	24.9	26.4	25.4	24.6	24.6	24.0
EUR/CZK (year-end)	29.1	27.5	26.6	26.6	26.5	25.1	25.7	24.3	23.7
REER (2000=100)	117.8	122.8	123.6	136.0	127.0	132.7	138.0	140.8	144.3
Balance of Payments									
Exports, fob (USDbn)	71.9	85.9	106.3	124.7	98.7	116.9	136.3	130.3	127.2
Imports, fob (USDbn)	69.9	83.2	104.0	123.2	94.1	114.1	131.7	123.4	118.4
Trade balance (USDbn)	2.0	2.6	2.3	1.5	4.6	2.8	4.6	6.9	8.8
Current account (USDbn)	-1.3	-3.0	-7.8	-4.8	-4.8	-6.2	-6.2	-3.9	-2.6
as a % of GDP (%)	-1.0	-2.1	-4.5	-2.2	-2.5	-3.2	-2.9	-1.8	-1.2
FDI, net (USDbn)	11.7	4.0	7.6	2.2	1.9	5.1	4.2	3.3	3.7
Foreign exchange reserves excl. gold (USDbn)	29.3	30.5	34.3	37.0	41.6	42.8	41.9	40.0	38.4
Import cover (reserves/months of imports)	5.0	4.4	4.0	3.6	5.3	4.5	3.8	3.9	3.9
Fiscal Accounts									
General government budget balance (CZKbn)*	-104.4	-86.9	-24.7	-99.6	-213.9	-176.1	-141.7	-135.3	-124.0
General government budget balance (% GDP)*	-3.6	-2.6	-0.7	-2.7	-5.9	-4.8	-3.7	-3.4	-3.0
Primary balance (% GDP)	-2.4	-1.4	0.7	-1.6	-4.6	-3.1	-1.7	-1.4	-1.0
Public sector debt (% GDP)	29.8	29.4	29.0	30.0	35.3	38.5	41.0	42.0	42.5
Domestic debt (% GDP)	27.5	27.1	26.7	26.5	30.0	33.4	36.1	37.3	37.9
External debt (% GDP)	2.3	2.3	2.3	3.5	5.3	5.1	4.9	4.7	4.6
External Debt and Debt Service									
Total foreign debt excluding intercompany loans (USDbn)	39.3	49.1	65.5	70.7	76.9	82.5	90.9	84.1	84.0
as a % of GDP	31.6	34.2	37.6	32.5	40.4	43.5	42.0	40.0	40.0
Short-term foreign debt (USDbn)	13.6	15.2	23.4	26.3	24.3	24.9	24.0	24.0	24.0
Total debt service (USDbn)	6.5	6.3	6.2	7.7	7.9	10.3	16.8	14.5	10.9
as a % of export receipts	9.0	7.3	5.8	6.1	8.0	8.8	12.3	11.1	8.6
Interest payment (USDbn)	2.2	2.1	2.1	2.3	2.6	2.6	3.1	2.4	1.9
Amortization (USDbn)	4.3	4.1	4.0	5.3	6.2	7.7	13.7	12.1	9.0
Credit Ratings (year-end & latest)									
Moody's	A1	A1	A1	A1	A1	A1	A1 (sta)	n/a	n/a
S&P	A-	A-	A	A	A	A	AA- (sta)	n/a	n/a
Fitch	A	A	A	A+	A+	A+	A+ (pos)	n/a	n/a

Source: CSO, CNB, Ministry of Finance, Eurostat, IIF, Bloomberg, Moody's, S&P, Fitch, UBS estimates. Note: *ESA95

Russia

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activities									
GDP (USDbn)	764	990	1300	1661	1222	1480	1730	1839	2102
GDP (Rub bn)	21610	26917	33248	41277	38786	44939	50852	56102	62019
GDP per capita (USD)	5311	6898	9070	11602	8541	10352	12146	12963	14868
Real GDP growth* (%)	6.4	8.2	8.5	5.2	-7.8	4.0	4.1	3.3	3.8
Private consumption (%)	11.6	11.9	14.2	10.4	-4.8	3.0	6.0	4.5	5.0
Government consumption (%)	1.4	2.3	2.7	3.4	0.2	1.4	1.5	1.0	0.3
Gross Capital formation (%)	10.6	18.0	21.0	10.6	-14.4	6.1	4.0	4.5	6.0
Exports (%)	6.5	7.3	6.3	0.6	-4.7	7.1	5.5	4.0	3.0
Imports (%)	16.6	21.3	26.2	14.8	-30.4	25.6	16.0	9.0	13.5
Unemployment rate (year-end, ILO defn, %)	7.6	7.2	6.1	6.4	8.4	7.5	6.5	6.4	6.0
Industrial production (%)	5.1	7.9	6.8	0.6	-9.3	8.3	5.5	3.0	5.0
Prices, Interest Rate and Money									
CPI (average, %)	12.7	9.7	9.0	14.1	11.6	6.8	8.7	6.8	6.5
CPI (year-end, %)	10.9	9.0	11.9	13.3	8.8	8.8	7.1	7.2	6.0
Broad money (%)	38.5	48.7	43.5	0.8	17.7	31.1	20.0	17.0	12.0
1 day repo rate (year-end)	6.0	6.0	6.0	9.0	6.0	5.0	5.25	5.25	5.25
Exchange Rates									
USD/RUB (average)	28.3	27.2	25.6	24.9	31.7	30.4	29.4	30.5	29.5
USD/RUB (year-end)	28.8	26.3	24.6	29.4	30.2	30.5	31.5	30.0	29.0
Rub vs 55USD/45Euro basket (average)	31.4	30.3	29.8	30.1	37.3	34.8	34.6	34.6	32.4
Rub vs 55USD/45Euro basket (year-end)	31.2	30.1	29.7	34.8	36.2	34.9	36.5	33.4	31.6
Balance of Payments									
Brent (USD/bbl)	54.6	65.2	72.4	99.0	60.9	80.4	111.5	100.0	95.0
Exports, merchandise (USDbn)	243.8	303.6	354.4	471.6	303.4	400.4	510.0	515.0	530.0
Imports, merchandise, (USDbn)	125.4	164.3	223.5	291.9	191.8	248.7	315.0	355.0	420.0
Trade balance (USDbn)	118.4	139.3	130.9	179.7	111.6	151.7	195.0	160.0	110.0
Current account balance (USDbn)	84.6	94.7	77.8	103.5	48.6	70.3	100.0	70.0	30.0
as a % of GDP	11.1	9.6	6.0	6.2	4.0	4.7	5.8	3.8	1.4
FDI, net (USDbn)	0.1	6.6	9.2	19.4	-7.2	-9.6	4.0	6.0	10.0
FX reserves, ex.. gold (USDbn) inc. IMF loan	175.9	295.6	466.8	411.7	416.7	443.6	500.0	550.0	580.0
Import cover (reserves/months of imports)	16.8	21.6	25.1	16.9	26.1	21.4	19.0	18.6	16.6
Fiscal Accounts									
Federal budget balance (RUBbn)	1613	1994	1795	1709	-2300	-1812	-509	-1122	-1240
Federal budget balance (% GDP)	7.5	7.4	5.4	4.1	-5.9	-4.0	-1.0	-2.0	-2.0
Primary balance (% GDP)	8.4	9.7	5.8	4.4	-4.9	-3.6	-0.6	-1.6	-1.6
Public sector debt, (% GDP)	13.2	8.3	6.6	5.2	7.3	7.8	8.0	9.0	10.0
Domestic debt (% GDP)	3.9	3.8	3.8	3.4	4.7	5.5	5.4	6.7	7.7
External debt (% GDP)	9.3	4.5	2.9	1.8	2.6	2.3	2.6	2.3	2.3
External Debt and Debt Service									
Total foreign debt (USDbn)	257	313	464	481	467	489	438	419	441
as a % of GDP (%)	33.7	31.6	35.7	28.9	38.2	33.0	25.3	22.8	21.0
Short-term foreign debt (USDbn)	43.5	56.6	99.7	73.6	52.7	60.2	65.0	65.0	65.0
Total debt service (USDbn)	66.3	67.4	56.0	66.1	83.1	89.0	77.1	93.0	76.0
as a % of foreign export receipt	27.2	22.2	15.8	14.0	27.4	22.2	15.1	18.1	14.3
Interest payments (USDbn)	12.4	16.1	21.7	26.2	22.2	22.8	24.5	18.0	16.0
Amortization (USDbn)	53.9	51.3	34.4	40.0	60.9	66.2	52.6	75.0	60.0
Credit Ratings (year-end & latest)									
Moody's	Baa2	Baa2	Baa2	Baa1	Baa1	Baa1	Baa1 (sta)	n/a	n/a
S&P	BBB	BBB+	BBB+	BBB+	BBB	BBB	BBB (sta)	n/a	n/a
Fitch	BBB-	BBB	BBB+	BBB+	BBB+	BBB	BBB (pos)	n/a	n/a

Source: Central Bank of the Russian Federation, EMED, IIF, UBS estimates

Ukraine

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activities									
GDP (USDbn)	86	108	143	180	117	138	155	163	172
GDP (UAH bn)	441	544	721	948	913	1095	1242	1382	1552
GDP per capita (USD)	1829	2305	3071	3897	2551	3013	3406	3589	3823
Real GDP growth (%)	2.7	7.3	7.9	2.3	-15.1	4.2	4.8	3.0	3.5
Private consumption (%)	19.3	15.4	17.0	12.8	-14.9	7.0	11.0	4.0	6.0
Government consumption (%)	2.3	4.0	1.8	1.1	-2.4	2.7	0.0	0.5	0.0
Capital formation (%)	15.2	17.9	26.6	1.8	-57.0	16.2	3.0	2.0	5.0
Exports (%)	-12.7	-5.8	2.8	5.7	-22.0	4.5	10.0	3.0	5.0
Imports (%)	6.7	8.3	23.9	17.0	-38.9	11.1	20.0	3.0	7.0
Unemployment rate (year-end, ILO definition, %)	7.8	7.4	6.9	6.9	9.6	8.8	8.5	8.4	8.2
Industrial production (%)	2.8	8.1	7.6	-5.2	-21.9	11.2	9.0	7.0	7.5
Prices, Interest Rate and Money									
CPI (average, %)	13.6	9.1	12.9	25.2	15.9	9.3	8.3	8.0	8.5
CPI (year-end, %)	10.4	11.9	17.0	22.6	12.5	9.1	7.0	10.0	8.0
Broad money (%)	38.4	38.9	42.6	44.7	5.9	14.0	12.0	10.0	10.0
Benchmark rate NBU discount rate (%)	9.50	8.50	8.00	12.00	10.25	7.75	7.75	7.75	7.75
Exchange Rates									
USD/UAH (average)	5.12	5.05	5.05	5.27	7.79	7.94	8.00	8.50	9.00
USD/UAH (year-end)	5.05	5.05	5.05	7.70	7.99	7.96	8.00	9.00	9.00
Balance of Payments									
Exports, merchandise (USDbn)	35.0	38.9	49.8	67.7	40.4	52.2	65.7	72.4	83.4
Imports, merchandise, (USDbn)	36.2	44.1	60.4	83.8	44.7	60.6	79.3	84.7	95.6
Trade balance (USDbn)	-1.1	-5.2	-10.6	-16.1	-4.3	-8.4	-13.6	-12.3	-12.2
Current account balance (USDbn)	2.5	-1.6	-5.3	-12.8	-1.7	-3.0	-8.8	-7.2	-7.3
as a % of GDP	2.9	-1.5	-3.7	-7.1	-1.5	-2.2	-5.7	-4.4	-4.2
FDI, net (USDbn)	7.5	5.7	9.2	9.9	4.7	5.8	7.5	6.0	7.5
Foreign exchange reserves, excl. gold (USDbn) incl.	19.0	21.8	30.8	30.8	25.6	33.3	32.0	30.0	33.0
Import cover (reserves/months of imports)	6.3	5.9	6.1	4.4	6.9	6.6	4.8	4.2	4.1
Fiscal Accounts									
Consolidated budget balance, incl Naftogaz (% GDP)	-2.3	-1.4	-2.0	-3.2	-6.3	-6.5	-4.0	-3.0	-2.5
Primary balance (% GDP)	-1.5	-0.6	-1.3	-2.6	-5.1	-5.0	-2.0	-1.0	-0.5
Public sector debt, (% GDP)	21.0	15.7	12.8	19.9	34.6	41.7	43.0	44.0	42.0
Domestic debt (% GDP)	2.3	2.9	3.0	4.1	9.3	16.9	17.0	18.0	16.0
External debt (% GDP)	18.7	12.8	9.8	15.8	25.3	24.8	26.0	26.0	26.0
External Debt and Debt Service									
Total foreign debt (USDbn)	39.6	54.5	80.0	101.7	103.4	117.3	119.6	124.4	130.2
as a % of GDP	46.0	50.6	56.0	56.5	88.2	85.1	77.0	76.5	75.5
Short-term foreign debt (USDbn)	10.9	15.2	20.7	20.3	19.1	25.6	25.0	23.0	25.0
Total debt service (USDbn)	3.6	11.9	16.7	25.0	33.2	27.3	32.6	34.3	35.3
as a % of foreign export receipt	10.2	30.6	33.5	36.9	82.3	52.4	49.6	47.3	42.4
Interest payments (USDbn)	1.5	2.1	4.3	7.0	7.0	7.0	8.4	9.3	10.3
Amortization (USDbn)	2.0	9.8	12.4	18.0	26.2	20.3	24.2	25.0	25.0
Credit Ratings (year-end & latest)									
Moody's	B1	B1	B1	B1	B2	B2	B2 (sta)	n/a	n/a
S&P	BB-	BB-	BB-	B	CCC+	B+	B+ (sta)	n/a	n/a
Fitch	BB-	BB-	BB-	B+	B-	B	B (sta)	n/a	n/a

Source: NBU, EMED Database, UBS estimates

Kazakhstan

	2005	2006	2007	2008E	2009	2010	2011F	2012F	2013F
Economic Activities									
GDP (Tenge bn)	7591	10214	12850	16053	17008	21648	25132	28529	32358
GDP (USDbn)	57	81	105	133	115	147	172	200	229
GDP per capita (USD)	3754	5262	6736	8457	7119	8939	10428	12115	13923
Real GDP growth (%)	9.7	10.7	8.9	3.3	0.3	6.9	7.0	5.5	6.0
Private consumption (%)	10.9	12.7	10.9	6.3	0.6	10.9	8.5	7.0	7.5
Government consumption (%)	10.8	7.3	14.0	4.3	1.0	2.7	8.0	1.0	3.0
Fixed capital formation (%)	28.1	29.7	17.3	1.0	-0.8	3.8	1.0	0.0	2.0
Exports (%)	1.1	6.5	9.0	0.8	-11.6	1.9	4.0	2.0	3.0
Imports (%)	12.5	12.2	25.8	-11.5	-16.0	0.9	3.0	0.0	1.0
Industrial production (%)	5.1	7.3	8.0	4.8	1.6	10.1	4.0	3.0	3.5
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	7.5	8.6	10.8	17.1	7.3	7.1	8.5	7.6	7.0
Consumer price inflation (year-end, %)	7.5	8.3	18.8	9.5	6.2	7.8	8.0	7.5	7.0
Broad money, M2 (year-end, %)	29.0	85.7	26.3	30.0	15.5	23.1	25.0	20.0	15.0
Refinancing rate (year-end, %)	8.00	9.00	11.00	10.50	7.00	7.00	7.50	7.50	7.50
Exchange Rates									
USD/Tenge (average)	132.9	126.1	122.6	120.3	147.5	147.4	146.5	143.0	141.0
USD/Tenge (year-end)	134.0	127.4	120.3	120.8	148.4	147.4	145.0	142.5	140.0
EUR/Tenge (average)	165.3	158.9	167.9	176.8	205.0	195.5	203.6	185.9	172.0
EUR/Tenge (year-end)	158.0	168.0	176.8	167.9	213.6	197.0	195.8	178.1	168.0
REER (Dec 00=100)	96.1	103.6	106.0	111.8	104.3	107.7	122.6	n/a	n/a
Balance of Payments									
Brent (USD/bbl)	54.7	65.2	72.4	96.6	61.8	79.6	111.5	100.0	95.0
Exports, fob (USDbn)	28.2	38.6	48.2	71.8	43.8	59.7	84.4	88.7	92.4
Imports, fob (USDbn)	17.9	24.0	33.1	38.3	28.7	30.7	36.3	41.6	48.1
Trade balance (USDbn)	10.3	14.6	15.1	33.5	15.1	29.0	48.1	47.1	44.3
Current account (USDbn)	-1.1	-2.0	-8.3	6.3	-4.1	3.0	12.1	10.1	8.8
as a % of GDP	-1.8	-2.5	-7.9	4.7	-3.5	2.1	7.1	5.1	2.0
FDI, net (USDbn)	2.1	6.7	8.0	13.1	10.1	2.9	8.0	6.0	5.0
Foreign exchange reserves (USDbn)	6.0	19.1	17.6	19.9	23.1	28.3	40.0	48.0	54.0
External assets of National Oil Fund (NOF) (USD	8.1	14.1	21.0	27.5	24.4	31.0	42.0	47.0	51.0
Import cover (res. + NOF /months of imports)	9.4	16.6	14.0	14.8	19.8	23.2	27.1	27.4	26.2
Fiscal Accounts									
General government balance, (Tenge bn)*	316.2	753.1	571.5	316.1	-240.3	514.8	1100.0	918.1	917.7
General government balance (% GDP)*	4.2	7.4	4.4	2.0	-1.4	2.4	4.4	3.2	2.8
Primary balance (% GDP) (Interest exp. Is neg.)	2.4	5.4	3.5	1.7	-2.4	1.4	3.4	2.2	1.8
Public sector debt (% GDP)	10.5	7.5	7.0	6.7	10.4	11.3	12.4	13.0	14.2
Domestic debt (% GDP)	6.7	3.7	5.0	5.1	7.1	9.3	10.4	11.0	12.2
External debt (% GDP)	3.8	3.9	2.0	1.6	3.4	2.0	2.0	2.0	2.0
External Debt and Debt Service									
Total foreign debt (USDbn) excl. intercompany	24.2	48.5	66.8	67.7	63.2	65.9	66.9	71.8	84.9
as a % of GDP	42.4	59.9	63.7	50.8	54.8	44.9	39.0	36.0	37.0
Intercompany debt	19.2	25.5	30.1	40.2	49.6	52.3	61.8	71.8	82.6
Short-term foreign debt (USDbn)	8.2	12.7	12.0	10.0	10.3	9.1	12.0	12.0	12.0
Total debt service (USDbn)	11.1	11.8	25.4	31.8	30.4	15.1	13.9	8.5	n/a
as a % of foreign export receipt	39.2	30.7	52.8	44.3	69.4	25.4	16.5	9.6	n/a
Interest payments (USDbn)	1.7	2.7	5.3	5.8	5.0	4.5	4.7	2.9	n/a
Amortization (USDbn)	9.4	9.1	20.1	26.1	25.4	10.6	9.2	5.6	n/a
Credit Ratings (year-end & latest)									
Moody's	Baa3	Baa2	A2	Baa2	Baa2	Baa2	Baa2 (sta)	n/a	n/a
S&P	BBB-	BBB	BBB-	BBB-	BBB-	BBB	BBB (sta)	n/a	n/a
Fitch	BBB	BBB	BBB	BBB-	BBB-	BBB-	BBB- (pos)	n/a	n/a

Source: Agency of Statistics, NBK, UBS estimates *including oil fund.

Turkey

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activity									
GDP (TRYbn)	648.9	758.4	843.2	950.5	952.6	1103.7	1256.6	1391.9	1535.9
GDP (USDbn)	481.7	527.5	643.6	728.3	614.6	732.2	752.4	786.4	903.5
GDP per capita (USD)	7024	7599	9161	10244	8530	10029	10175	10502	11917
Real GDP growth (%)	8.4	6.9	4.7	0.7	-4.8	9.0	7.1	2.0	3.8
Private consumption (%)	7.9	4.6	5.5	-0.3	-2.3	6.7	9.2	2.5	4.3
Government consumption (%)	2.5	8.4	6.5	1.7	7.8	2.0	4.0	1.5	1.5
Fixed capital formation (%)	17.4	13.3	3.1	-6.2	-19.0	29.9	25.5	5.0	8.0
Exports (%)	7.9	6.6	7.3	2.7	-5.0	3.4	4.0	5.0	7.0
Imports (%)	12.2	6.9	10.7	-4.1	-14.3	20.7	20.0	7.0	9.5
Unemployment rate, average (%)	10.6	10.2	10.2	11.0	14.0	11.9	10.8	11.0	10.5
Industrial production (average, %)	5.3	7.3	7.0	-0.6	-9.9	13.1	7.5	5.0	6.0
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	8.2	9.6	8.8	10.4	6.3	8.6	6.3	8.6	6.3
Consumer price inflation (year-end, %)	7.7	9.7	8.4	10.1	6.4	6.4	9.7	6.7	6.3
Broad money (M2, %)	40.1	20.7	22.0	27.1	11.0	24.4	19.0	15.0	14.0
Policy rates (1-week repo rate, yr-end, %)***	13.5	17.5	15.75	15.0	6.50	6.50	5.75	6.75	7.50
Exchange Rates									
USD/TRY (average)	1.35	1.44	1.31	1.31	1.55	1.51	1.67	1.77	1.70
USD/TRY (year-end)	1.35	1.42	1.17	1.54	1.50	1.54	1.78	1.75	1.65
EUR/TRY (average)	1.68	1.81	1.79	1.92	2.15	2.00	2.32	2.30	2.07
EUR/TRY (year-end)	1.60	1.87	1.72	2.14	2.16	2.06	2.40	2.19	1.98
TRY against USD/EUR basket (50/50), average	1.51	1.62	1.55	1.61	1.85	1.75	2.00	2.04	1.89
REER (2000=100, annual average)	106.3	106.5	115.0	117.9	110.2	124.7	114.1	118.1	129.9
Balance of Payments									
Exports, fob, (USDbn)	78.4	93.6	115.4	140.8	109.6	120.9	140.0	150.0	160.0
Imports, fob, (USDbn)	111.4	134.7	162.2	193.8	134.5	177.3	230.0	233.0	240.0
Trade balance (USDbn)	-33.1	-41.1	-46.9	-53.0	-24.9	-56.4	-90.0	-83.0	-80.0
Current account balance (USDbn)	-22.3	-32.2	-38.4	-42.0	-14.0	-47.7	-77.0	-62.0	-67.0
as a % of GDP	-4.6	-6.1	-6.0	-5.8	-2.3	-6.5	-10.2	-7.9	-7.4
FDI, net (USDbn)	9.0	19.3	19.9	17.0	6.9	7.8	10.0	10.0	10.0
Foreign exchange reserves excl. gold (USDbn)	48.6	58.5	70.2	67.8	66.6	80.7	75.0	70.0	80.0
Import cover (reserves/months of imports)	5.2	5.2	5.2	4.2	5.9	5.5	3.9	3.6	4.0
Fiscal Accounts									
Consolidated government budget balance (TRYbn)	-1.9	-4.6	-13.9	-17.1	-52.2	-39.6	-25.1	-34.8	-35.3
Consolidated government budget balance (% GDP)	-0.3	-0.6	-1.6	-1.8	-5.5	-3.6	-2.0	-2.5	-2.3
Public sector primary balance (% GDP)	5.5	5.5	4.1	3.5	0.1	0.8	1.8	1.7	-2.3
Public sector debt, gross (% GDP)	54.1	48.2	42.2	42.9	48.9	45.0	41.0	39.7	39.0
Domestic debt (% GDP)	40.0	35.4	32.4	31.1	36.5	33.4	32.0	31.0	30.0
External debt (% GDP)	14.1	12.8	9.8	11.8	12.4	11.6	9.0	8.7	9.0
Public sector debt, net (% of GDP)*	41.7	34.0	29.5	28.2	32.5	28.8	27.0	26.0	25.0
External Debt and Debt Service									
Total foreign debt (USDbn)	169.9	207.7	249.5	280.4	268.4	289.4	310.0	307.0	315.0
as a % of GDP	35.3	39.4	38.8	38.5	43.7	39.5	41.2	39.0	34.9
o/w Public foreign debt, including CBT (USDbn)	85.8	87.3	89.3	92.4	96.8	100.8	105.0	107.0	110.0
o/w Private foreign debt, (USDbn)	84.1	120.5	160.2	188.0	171.6	188.6	205.0	200.0	205.0
Short-term foreign debt (USDbn)	38.3	42.6	43.1	53.1	49.7	78.2	85.0	80.0	82.0
Total external debt service (USDbn), exluding short-term debt	36.8	39.3	48.0	53.2	58.2	55.4	53.7	55.2	55.7
as a % of exports (fob)	47.0	41.9	41.6	37.8	53.1	45.8	38.4	36.8	34.8
Interest payments (USDbn)	8.0	8.6	10.1	11.3	9.9	8.3	8.7	9.2	8.7
Amortization (USDbn)**	28.8	30.7	37.9	41.8	48.4	47.1	45.0	46.0	47.0
Credit Ratings (year-end & latest)									
Moody's	Ba3	Ba3	Ba3	Ba3	Ba3	Ba2	Ba2 (pos.)	n/a	n/a
S&P	BB-	BB-	BB-	BB-	BB-	BB	BB (pos)	n/a	n/a
Fitch	BB-	BB-	BB-	BB-	BB-	BB+	BB+ (pos)	n/a	n/a

Source: SIS, CBT, Turkish Treasury, IMF, IIF, Bloomberg, Moody's, S&P, Fitch, UBS estimates. * Net debt = gross debt minus CBT net assets, public sector deposits, unemployment insurance fund net assets; ** excluding principal on short-term debt. ***Overnight borrowing rate until May2010; 1-week repo rate thereafter.

Egypt

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activity									
GDP (EGPbn)	570.6	685.8	817.4	976.8	1123.8	1307.5	1440.9	1632.5	1854.4
GDP (USDbn)	98.7	119.8	145.1	179.8	202.7	232.4	242.2	265.4	296.7
GDP per capita (USD)	1,411	1,680	1,971	2,391	2,639	2,987	3,065	3,297	3,613
Real GDP growth (%)	4.5	6.8	7.1	6.0	4.6	5.5	0.0	3.0	4.5
Private consumption (%)	4.8	6.4	8.8	5.7	4.6	4.5	3.0	3.8	5.0
Government consumption (%)	2.8	3.1	0.2	3.6	5.2	4.3	6.0	4.0	2.5
Fixed capital formation (%)	10.3	13.4	23.7	9.2	-10.0	11.2	-15.0	6.0	12.0
Exports (%)	20.2	21.2	20.2	14.1	-18.8	9.0	-2.5	7.0	8.0
Imports (%)	23.8	21.7	30.5	13.7	-24.0	9.6	0.0	8.0	9.0
Unemployment rate (%)	11.2	10.6	8.9	8.7	9.4	9.0	12.0	11.5	11.0
Industrial production (average, %)	3.3	10.2	6.2	5.9	4.7	3.1	-7.0	4.0	6.5
Population, mn	70.0	71.3	73.6	75.2	76.8	77.8	79.0	80.50	82.11
Population growth, %	2.0	1.9	3.2	2.2	2.1	1.3	1.5	1.9	2.0
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	8.8	7.2	10.5	21.0	10.1	11.1	10.2	10.0	8.7
Consumer price inflation (year-end, %)	3.1	13.1	7.1	20.9	13.1	10.6	9.6	9.2	8.5
Broad money (M2, %)	11.5	13.4	18.3	15.5	8.4	10.5	10.0	11.0	13.0
Policy rates (deposit rate* / lending rate, yr-end, %)	9.5/12.5	8.75/10.75	8.75/10.75	11.5/13.5	8.25/9.75	8.25/9.75	8.25/9.75	9.75/11.25	9.0/10.5
Exchange Rates									
USD/EGP (average)	5.78	5.73	5.63	5.43	5.55	5.63	5.95	6.15	6.25
USD/EGP (year-end)	5.73	5.71	5.53	5.50	5.48	5.80	5.97	6.50	6.00
EUR/EGP (average)	7.19	7.22	7.72	7.99	7.71	7.46	8.27	8.00	7.63
EUR/EGP (year-end)	6.76	7.53	8.13	7.64	7.90	7.76	8.06	8.13	7.20
EGP against USD/EUR basket (50/50), average	6.48	6.47	6.68	6.71	6.63	6.55	7.11	7.07	6.94
REER (2000=100, annual average)	53.8	53.8	51.7	51.7	53.4	52.7	n/a	n/a	n/a
Balance of Payments									
Exports, fob, (USDbn)	16.1	20.5	24.5	29.8	23.1	25.0	28.0	30.0	31.5
Imports, cif, (USDbn)	27.4	33.3	45.3	56.6	45.6	51.5	51.0	53.5	56.0
Trade balance (USDbn)	-11.3	-12.7	-20.8	-26.8	-22.5	-26.5	-23.0	-23.5	-24.5
Net hydrocarbon exports (USDbn)	2.6	5.7	4.7	4.9	5.0	4.8	6.0	5.0	4.5
Current account balance (USDbn)	2.0	2.5	0.2	-1.3	-3.2	-4.4	-3.5	-4.5	-5.0
as a % of GDP	2.1	2.1	0.2	-0.7	-1.6	-1.9	-1.4	-1.7	-1.7
FDI, net (USDbn)	5.3	9.9	10.9	7.6	7.3	7.6	1.0	3.0	4.0
Foreign exchange reserves excl. gold (USDbn)	21.1	25.0	30.5	32.5	34.2	36.2	20.0	22.0	25.0
Import cover (reserves/months of imports)	5.5	6.2	6.2	5.6	5.7	6.5	4.0	4.3	4.5
Fiscal Accounts (Fiscal year, ending 30 June)									
General government budget balance (EGPbn)	-47.9	-63.1	-62.9	-73.3	-77.5	-105.9	-139.8	-161.6	-166.9
General government budget balance (% GDP)	-8.4	-9.2	-7.7	-7.5	-6.9	-8.1	-9.7	-9.9	-9.0
Public sector primary balance (% GDP)	-2.9	-2.2	-0.9	-1.2	-1.8	-2.0	-3.8	-4.2	-3.5
Public sector debt, gross (% GDP)	112.8	98.8	87.1	74.7	75.6	73.8	76.5	78.0	78.8
Domestic debt (% GDP)	92.9	83.0	72.2	60.2	62.2	61.6	66.5	69.5	67.8
External debt (% GDP)	19.9	15.8	14.9	14.5	13.4	12.2	10.0	8.5	11.0
External Debt and Debt Service									
Total foreign debt (USDbn)	29.7	31.4	35.6	39.9	32.4	40.5	39.0	41.5	44.0
as a % of GDP	30.1	26.2	24.5	22.2	16.0	17.4	16.1	15.6	14.8
o/w Public foreign debt (USDbn)	26.3	26.3	27.2	29.2	28.3	28.6	30.5	32.2	34.0
o/w Private foreign debt, (USDbn)	3.4	5.1	8.4	10.7	4.1	11.9	8.5	9.3	10.0
Short-term foreign debt (USDbn)	1.7	1.7	2.2	2.8	2.6	3.1	3.5	4.0	4.5
Total external debt service (USDbn), ex short-term debt	3.1	3.3	2.4	3.1	2.7	2.7	2.9	3.0	3.0
as a % of exports (fob)	9.4	8.5	6.9	4.6	6.2	5.2	5.3	5.1	4.9
Interest payments (USDbn)	0.6	0.6	0.7	0.8	0.7	0.6	0.7	0.7	0.9
Amortization (USDbn)	2.5	2.6	1.8	2.3	2.0	2.1	2.2	2.3	2.1
Credit Ratings (year-end & latest)									
Moody's	Ba1	Ba1	Ba1	Ba1	Ba1	Ba1	B1 (neg)	n/a	n/a
S&P	BB+	BB+	BB+	BB+	BB+	BB+	BB- (neg)	n/a	n/a
Fitch	BB-	BB-	BB-	BB-	BB-	BB+	BB (neg)	n/a	n/a

Source: IIF, Bloomberg, Moody's, S&P, Fitch, UBS

South Africa

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Population, national accounts and unemployment									
GDP (Rbn)	1571.1	1767.4	2016.2	2274.1	2396.0	2664.3	2930.1	3151.0	3458.8
GDP ($ bil)	251.8	255.7	287.3	281.6	285.4	363.1	407.0	395.7	435.0
GDP per capita, $	5264.0	5266.3	5830.4	5630.8	5622.0	7067.7	7827.6	7520.0	8089.6
Real GDP growth	5.3	5.6	5.6	3.6	-1.7	2.8	3.1	2.6	3.7
Private consumption, %	6.1	8.3	5.5	2.2	-2.0	4.4	4.7	3.4	3.6
Government consumption (%)	4.6	4.9	4.1	4.7	4.8	4.6	4.4	4.1	4.1
Capital formation (%)	11.0	12.1	14.0	14.1	-2.2	-3.7	2.8	4.2	4.9
Exports (%)	8.6	7.5	6.6	1.8	-19.5	4.5	13.5	10.1	-1.3
Imports (%)	10.9	18.3	9.0	1.5	-17.4	9.6	17.5	12.4	1.9
Unemployment, % of labour force year end	26.7	25.6	24.6	21.9	25.3	25.2	25.0	25.0	25.0
Prices, interest rates and money									
CPI inflation (average, %)	3.3	4.5	6.9	11.0	7.3	4.3	4.9	6.2	5.7
CPI inflation (% year-end)	3.4	5.8	8.9	9.7	6.1	3.5	6.2	5.7	5.5
Repo rate (end-year, %)	7.0	9.0	11.0	11.5	7.0	5.5	5.5	5.5	7.0
10 year bond (year-end, %)	7.4	7.9	8.4	7.3	8.7	8.4	7.4	8.3	8.2
Exchange rates									
USD/ZAR (average)	6.2	6.9	7.0	8.1	8.4	7.3	7.3	7.9	7.9
USD/ZAR (year-end)	6.3	7.0	6.8	9.5	7.7	6.6	8.1	7.8	8.2
EUR/ZAR (average)	7.8	8.7	9.8	12.1	11.5	9.2	10.2	9.8	9.7
EUR/ZAR (year-end)	7.5	9.2	9.9	13.3	11.0	8.6	9.7	9.7	9.7
Financial sector and credit									
Exports ($bn)	73.2	81.6	96.2	106.4	85.3	88.6	97.7	97.9	102.4
Imports ($bn)	70.1	82.7	98.4	109.1	81.2	80.1	94.0	96.1	103.8
Trade balance ($bn)	3.1	-1.1	-2.2	-2.7	4.1	8.5	3.7	1.9	-1.4
Current account balance, $ bn	-8.7	-13.6	-20.6	-20.0	-11.5	-7.2	-14.1	-16.6	-22.9
Current account, % of GDP	-3.2	-5.4	-6.9	-7.1	-4.0	-2.8	-3.3	-4.1	-5.1
Foreign direct investment ($bn)	5.8	-7.1	2.6	12.8	4.2	1.1	-0.2	15.1	15.1
Foreign exchange reserves excl gold ($bn)	20.6	25.4	34.7	33.5	37.9	43.5	48.0	51.0	51.0
Import cover (reserves/months imports)	4.3	4.4	5.1	4.4	6.9	6.4	5.9	5.8	5.1
Fiscal accounts									
National government budget balance (end-FY, % GDP)	-0.3	0.7	0.9	-1.2	-6.5	-5.3	-5.6	-5.3	-4.7
Primary balance (% GDP)	2.9	3.5	3.4	1.3	-2.2	-2.7	-2.3	-2.3	-2.3
Public sector debt (% GDP)	34.1	31.1	29.4	34.4	31.7	35.3	38.6	41.5	44.6
Domestic debt (% GDP)	25.6	24.0	23.7	27.8	24.3	31.6	34.1	37.1	40.1
External debt (% GDP)	8.6	7.1	5.7	6.6	7.4	3.7	4.5	4.4	4.5
Foreign debt and reserves									
Foreign debt, $ bn	63.7	80.0	99.4	98.3	107.1	99.0	103.0	107.0	111.0
as % of GDP	25.3	31.3	34.6	34.9	37.5	20.9	22.9	25.2	27.8
Short-term foreign debt ($bn)	15.1	20.6	24.0	25.5	27.9	21.5	21.9	27.4	34.3
Total debt service ($bn)	4.6	7.8	11.7	14.3	8.7	13.2	14.2	14.2	14.2
as a % of exports	6.3	9.6	12.2	13.4	10.2	14.9	14.5	14.5	13.9
Interest payments ($bn)	2.1	3.2	3.4	5.0	8.0	8.0	8.0	8.0	8.0
Scheduled debt amortization, $ bn	2.5	4.6	8.3	9.3	3.7	5.2	6.2	6.2	6.2
Credit ratings									
Moody's	Baa1	Baa1	Baa1	Baa1	A3	A3	A3 (neg)	n/a	n/a
S&P	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+ (sta)	n/a	n/a
Fitch	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+ (sta)	n/a	n/a

Source: South African Treasury, SARB, IIF, UBS estimates

Nigeria

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic activities									
GDP (NGNbn)	14735.3	18709.8	20874.2	24552.8	25102.4	30980.8	38154.0	42365.2	47524.0
GDP ($bn)	112.2	145.4	165.9	207.1	168.8	206.7	245.0	258.3	284.1
GDP per capita USD	823.8	1038.8	1153.4	1401.2	1111.7	1324.3	1542.5	1597.7	1680.6
Real GDP growth	6.50	6.00	6.40	6.00	6.70	7.60	7.50	6.70	7.30
Prices, interest rates, money									
CPI inflation (average, %)	17.9	8.2	5.5	11.5	11.9	13.2	10.6	10.7	11.8
CPI inflation (year-end)	11.6	8.5	6.5	14.2	12.4	14.0	9.0	11.6	12.7
Benchmark rate (year-end, %)	17.8	10.0	9.5	9.3	6.0	6.3	12.0	14.0	14.0
Exchange rates									
USD/NGN (average)	126.5	129.0	126.0	118.0	148.7	150.0	155.8	164.0	167.3
USD/NGN (year-end)	129.0	127.6	120.0	139.0	145.8	150.0	161.5	166.5	168.0
Balance of payments									
Exports ($bn)	52.5	61.6	62.8	73.0	51.0	123.0	153.5	131.3	144.1
Imports ($bn)	25.4	30.8	39.1	43.4	32.0	84.5	100.0	83.3	90.7
Trade balance ($bn)	27.1	30.8	23.7	29.6	19.0	38.5	53.5	48.0	53.4
Current account balance ($bn)	26.2	32.2	31.2	46.7	11.0	11.2	19.5	10.8	10.4
% of GDP	23.3	22.1	18.8	22.5	13.0	4.2	5.8	3.2	2.8
Foreign direct investment ($bn)	6.5	6.2	6.4	-2.6	4.2	4.1	4.0	4.0	4.0
Foreign exchange reserves excl.gold ($bn)	28.6	42.0	53.0	56.7	43.3	34.0	32.8	32.0	32.0
Fiscal accounts									
Federal government budget balance (end-FY, % GDP)	9.3	7.0	-1.3	3.5	-7.8	-2.8	-3.1	-3.1	-3.0
External debt and debt service									
Total foreign debt ($bn)	22.2	7.8	9.0	6.3	7.7	8.9	10.5	10.5	11.0
as % of GDP	19.8	5.4	5.4	3.0	4.5	4.3	4.3	4.1	3.9
Short-term foreign debt ($bn)	1.0	1.5	3.2	5.0	4.9	4.2	4.0	4.0	4.0
Total debt service ($bn)	8.1	0.9	0.9	1.4	1.3	1.2	1.2	1.2	1.3
as a % of export receipts	15.4	1.4	1.4	1.9	2.5	1.0	0.8	0.9	0.9
Credit ratings									
Moody's	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
S&P	n/a	BB-	BB-	BB-	B+	B+ (sta)	B+ (sta)	n/a	n/a
Fitch	n/a	BB-	BB-	BB-	BB-	BB- (sta)	BB- (sta)	n/a	n/a

Source: UBS estimates, National Statistics, Haver

UAE

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activity									
GDP (AEDbn)	663.3	815.7	948.1	1156.3	992.8	1093.1	1275.7	1263.9	1314.4
GDP (USDbn)	180.6	222.1	258.2	314.8	270.3	302.0	347.6	344.4	358.2
GDP per capita (USD)	43,978	52,514	57,525	66,070	55,077	59,743	66,757	64,214	65,119
Real GDP growth (%)	4.9	8.8	6.5	5.3	-3.2	3.2	4.2	3.2	4.0
o/w oil GDP growth (%)	2.3	6.5	-2.7	1.6	-9.6	5.3	5.8	3.3	3.5
o/w non-oil GDP growth (%)	6.4	9.5	9.1	6.3	0.6	2.1	3.3	3.1	4.3
Nominal GDP growth (%)	22.2	23.0	16.2	22.0	-14.1	10.1	16.7	-0.9	4.0
UAE population (m)	4.1	4.2	4.5	4.8	4.9	5.1	5.2	5.4	5.5
Population growth (%)	9.2	3.0	6.1	6.2	3.0	3.0	3.0	3.0	2.6
Oil sector activty									
Oil production (mbd)	2.5	2.6	2.7	2.8	2.6	2.75	2.8	3.0	3.1
Change in oil and liquids production (%)	2.3	3.9	4.0	3.6	-8.1	5.4	3.3	3.9	3.4
UAE Oil export price (US$/bbl)	53.6	63.5	71.7	97.0	77.0	78.0	109.0	98.5	93.0
Change in UAE oil price (%)	47.5	18.6	12.8	35.4	-20.6	1.3	39.7	-9.6	-5.6
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	6.2	9.3	11.1	12.3	1.6	0.9	3.0	3.5	3.5
GDP deflator, % y/y	16.5	13.0	9.1	15.8	-11.3	6.7	12.0	-4.0	0.0
Broad money (M2, %)	33.8	23.2	41.7	19.2	9.8	6.2	15.0	7.0	12.0
Policy rates (repo rate, year-end, %)	4.5	5.3	4.25	1.50	1.00	1.00	1.00	1.00	1.50
Real interest rate (simple, year-end, %)	-1.7	-4.0	-6.9	-10.8	-0.6	0.1	-2.0	-2.5	-2.0
Exchange Rates									
AED/USD (average)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
AED/USD (year-end)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
AED/EUR (average)	4.57	4.63	5.03	5.40	5.11	4.87	5.10	4.77	4.48
AED/EUR (year-end)	4.33	4.84	5.40	5.11	5.29	4.90	4.95	4.59	4.40
Balance of Payments									
Exports, fob, (USDbn)	117.3	145.6	178.7	240.1	192.5	231.0	290.0	295.0	310.0
Imports, fob, (USDbn)	74.5	88.0	132.1	176.3	149.7	166.3	190.0	200.0	215.0
Trade balance (USDbn)	42.8	57.5	46.6	63.8	42.8	64.7	100.0	95.0	95.0
Current account balance (USDbn)	24.4	33.9	15.4	23.3	8.2	21.2	35.0	32.0	33.0
as a % of GDP	13.5	15.3	6.0	7.4	3.0	7.0	10.1	9.3	9.2
FX reserves, incl ADIA (USDbn)*	277.0	334.0	433.0	362.0	401.0	433.0	495.0	530.0	550.0
Fiscal Accounts									
Consolidated government budget balance (AEDbn)	42.5	147.6	146.0	190.8	-125.1	-12.0	74.0	63.2	59.1
Consolidated government budget balance (% GDP)	6.4	18.1	15.4	16.5	-12.6	-1.1	5.8	5.0	4.5
Non-oil fiscal balance (% of non-oil GDP)	-24.1	-13.5	-14.0	-23.5	-42.3	-34.2	-34.0	-33.5	n/a
Public sector debt, gross (% GDP)	19.0	18.8	20.4	19.7	28.6	28.7	27.6	29.0	30.0
Domestic debt (% GDP)	13.2	13.7	15.1	14.7	22.5	22.7	22.4	23.4	24.0
External debt (% GDP)	5.8	5.1	5.3	5.0	6.1	6.0	5.2	5.6	6.0
External Debt									
Total foreign debt (USDbn)	58.2	80.6	130.4	136.0	130.8	140.4	141.5	138.4	150.4
as a % of GDP	32.2	36.3	50.5	43.2	48.4	46.5	40.7	40.2	42.0
Short-term foreign debt (USDbn)	22.9	27.8	30.6	33.6	37.0	42.3	46.5	51.2	54.0
Credit Ratings: Emirate of Abu Dhabi* (year-end & latest)									
Moody's	n/a	n/a	Aa2	Aa2	Aa2	Aa2	Aa2 (sta)	n/a	n/a
S&P	n/a	n/a	AA	AA	AA	AA	n/a	n/a	n/a
Fitch	n/a	n/a	AA	AA	AA	AA	n/a	n/a	n/a

Source: Central Bank of UAE, Ministry of Economy, IMF, IIF, Bloomberg, UBS estimates. * Holdings of the Central bank of UAE, excluding holdings by Sovereign Wealth Funds.

Saudi Arabia

	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F
Economic Activity									
GDP (SARbn)	1183	1336	1443	1786	1397	1630	2091	2121	2245
GDP (USDbn)	315.3	356.2	384.7	476.3	372.7	434.7	557.5	565.5	598.7
Change in nominal GDP (%)	26.0	12.9	8.0	23.8	-21.8	16.6	28.3	1.4	5.9
GDP per capita (USD)	13640	15030	15838	19131	14603	16650	20896	20738	21536
Real GDP growth (%)	5.6	3.2	2.0	4.2	0.6	4.1	6.0	3.5	3.8
o/w oil GDP growth (real, %)	6.2	-0.8	-3.6	4.2	-6.7	2.2	9.0	2.0	2.5
o/w non-oil GDP growth (real, %)	5.2	5.1	4.6	4.3	3.5	4.9	5.0	3.5	4.0
Saudi Arabian population (m)	23.1	23.7	24.3	24.9	25.5	26.1	26.7	27.3	27.8
Population growth (%)	2.6	2.5	2.5	2.5	2.5	2.3	2.2	2.2	2.0
Oil sector activty									
Oil production (including liquids, mbd)	9.3	9.2	8.8	9.1	8.2	8.4	9.0	9.2	9.4
Change in oil production (%) (rhs)	3.2	-1.2	-4.2	3.1	-9.7	2.1	7.7	2.2	2.2
Oil price (Brent, US$/bbl)	53.4	65.5	72.7	98.7	61.1	78.6	111.5	100.0	95.0
Oil price (Arab light, US$/bbl)	50.2	61.1	68.7	94.4	59.2	77.3	110.0	98.5	93.5
Change in oil price (%)	45.2	21.7	12.6	37.3	-37.3	30.6	42.3	-10.5	-5.1
Prices, Interest Rate and Money									
Consumer price inflation (average, %)	0.7	2.3	4.1	9.9	5.1	5.3	5.1	5.4	5.0
Consumer price inflation (year-end, %)	1.2	2.9	6.5	9.0	4.2	5.4	6.1	4.5	4.5
GDP deflator, %y/y	19.3	9.4	5.9	18.8	-22.2	15.0	21.0	-2.0	2.0
Broad money (M2, average, %)	10.0	19.3	19.6	17.6	10.7	5.0	11.0	12.0	13.0
Policy rates (reverse repo rate, year-end, %)	4.25	4.7	4.0	1.5	0.25	0.25	0.25	0.25	0.75
Real interest rate (simple, year-end, %)	3.6	2.4	-0.1	-8.4	-4.9	-5.1	-4.9	-5.2	-4.3
Exchange Rates									
SAR/USD (average)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
SAR/USD (year-end)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
SAR/EUR (average)	4.66	4.73	5.14	5.51	5.21	4.98	5.21	4.88	4.58
SAR/EUR (year-end)	4.42	4.94	5.51	5.21	5.40	5.01	5.06	4.69	4.50
REER (2000=100, annual average)	85.1	84.4	82.2	83.6	92.3	93.4	99.0	n/a	n/a
Balance of Payments									
Exports, fob, (USDbn)	180.7	211.3	233.2	313.3	192.3	251.0	350.0	340.0	325.0
o/w hydrocarbons	161.8	188.2	205.3	281.0	163.3	215.0	310.0	300.0	380.0
Imports, cif, (USDbn)	53.8	63.8	81.5	100.6	86.4	97.0	125.0	135.0	138.0
Trade balance (USDbn)	126.9	147.5	151.7	212.7	105.9	154.0	225.0	205.0	187.0
Current account balance (USDbn)	90.0	98.9	93.3	132.3	21.0	66.8	115.0	105.0	85.0
as a % of GDP	28.5	27.8	24.3	27.8	5.6	15.4	20.6	18.6	14.2
Foreign reserves (NFA) (USDbn)	155.0	226.0	305.5	442.2	409.7	450.0	550.0	600.0	640.0
Fiscal Accounts									
Consolidated govt budget balance (SARbn)	217.9	280.4	176.6	580.9	-86.6	108.5	209.1	169.6	145.9
Consolidated govt budget balance (% GDP)	18.4	21.0	12.2	32.5	-6.2	6.7	10.0	8.0	6.5
o/w Oil revenue (SARbn)	504.5	604.5	562.2	983.4	434.4	661.4	980.0	930.0	900.0
Public sector debt, gross (% GDP)	38.9	27.8	18.5	13.3	16.0	11.0	8.0	7.5	7.0
Domestic debt (% GDP)	38.9	27.8	18.5	13.3	16.0	11.0	8.0	7.5	7.0
External debt (% GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External Debt									
Total foreign debt (USDbn)	45.2	55.1	89.5	97.0	100.0	104.0	107.0	110.0	113.0
as a % of GDP	14.3	15.5	23.3	20.4	26.8	23.9	19.2	19.5	18.9
o/w Public foreign debt (USDbn)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Private foreign debt, (USDbn)	45.2	55.1	89.5	97.0	100.0	104.0	107.0	110.0	113.0
Short-term foreign debt (USDbn)	20.6	21.1	28.5	31.5	34.5	38.0	42.0	46.0	51.0
Credit Ratings (year-end & latest)									
Moody's	A3	A2	A1	A1	A1	Aa3	Aa3 (sta)	n/a	n/a
S&P	A3	A+	AA-	AA-	AA-	AA-	AA- (sta)	n/a	n/a
Fitch	A	A+	A+	AA-	AA-	AA-	AA- (sta)	n/a	n/a

Source: SAMA, Ministry of Economy and Planning, IMF, IIF, Bloomberg, UBS

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

Company Disclosures

Issuer Name
Czech Republic
Egypt
Hungary
Kazakhstan
Kingdom of Saudi Arabia
Nigeria
Poland
Romania
Russia
South Africa (Republic of)
Turkey
Ukraine
United Arab Emirates

Source: UBS; as of 12 Nov 2011.

Global Disclaimer

UBS