

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



WORLD ECONOMY

Panned?

An outbreak of swine flu in Mexico, which has already manifested itself over a wider geographic area, heightens fears of a potential pandemic. Similar experiences include SARS in early 2003 and the avian flu that spread from SE Asia to eastern Europe late 2003-late 2005. The former caused an immediate but short-lived Q2 2003 loss of 2% of GDP in Asia but the latter did not have a significantly visible macro-economic impact. The severity of the current swine flu virus is still uncertain. The worst case, a pandemic, would deepen and probably prolong the ongoing global economic crisis. That said, it is still unclear how deep and long the current crisis will be.



SOUTH KOREA

Package deal?

Unexpectedly, the economy grew by 0.1% qtr/qtr in Q1 (advance estimate), after plummeting by 5.1% in Q4, supported by heavy fiscal stimulus packages and monetary easing. Public contracts pushed up construction output by 6.1% and consumer spending edged up 0.4% (from a 4.6% decline in Q4) as a result of tax cuts and lower interest rates. On a yr/yr basis, however, real GDP contracted by 4.3% (down 3.4% in Q4), with facilities investment (down 22.1%) and exports (down 10.5%) hit hardest. Expect the economy to contract by 5%+ in 2009 as a whole, as the overall outlook, especially for external demand, remains weak.



SOUTH AFRICA

Zooming in

The ANC won 65.9% of the votes in last Wednesday's elections, not surprisingly securing a fourth consecutive poll victory. While the new opposition party COPE gained only 7.4% of the vote, the Democratic Alliance won over 16.6% and regained control of the Western Cape. The latter is the only province (of nine) not now governed by the ANC. Expect parliament, when it re-opens on 6 May, to elect Jacob Zuma as state president. However, with a deteriorating economy (expect GDP growth of -1/+1% this year) and high expectations of the ANC voters, Zuma's early term will not be easy. Expect only a short honeymoon period and some increase in social tensions.



ESTONIA

Stone cold

The economy is in the midst of a painful recession, with retail sales, industrial output and exports declining by 17%, 31% and 28% yr/yr, respectively, in Jan-Feb. Positively, inflation has fallen to 2% yr/yr in March and the current account deficit is set to narrow further this year from 9.2% in 2008 as imports declined even stronger than exports, by 35% yr/yr, in Jan-Feb. Moody's, which had placed Estonia on review for possible downgrade in February, last week confirmed its sovereign rating at A1 (with a negative outlook). Expect real GDP to contract by more than 10% in Q1 and by at least 8% in 2009 as a whole.

ALSO IMPORTANT...



ICELAND

Ice pick?

General elections on 25 April resulted in a significant swing to the left, with a new coalition government forged by the Social Democrats and the Left-Green movement, which together now hold 34 out of 63 parliamentary seats. The conservative Independence Party, which had been in power for almost 18 years, was swept aside (16 seats). Expect the new government under PM Johanna Sigurdardottir to attempt to steer Iceland towards EU membership. However, the Left-Greens are against any act that would threaten the fishing sector and it is not clear that in a referendum the people would support an EU application. Meanwhile, expect GDP to contract by around 10% this year.

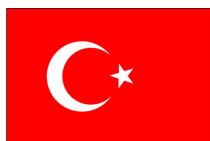


INDIA

Central Reservation

Last week's decision by the Reserve Bank of India (RBI, central bank) to cut key interest rates by a further 25bps suggests that there are concerns that economic weakening has continued and that banks are not passing on the full effect of lower rates and thereby not boosting commercial lending. Expect this weak transmission to lead to further rate cuts this year. The RBI also forecasts GDP growth of 6% in FY 2009/10 after 6.5-6.7% in the FY just ended. However, with credit difficult to raise from both domestic and external sources, investment and consumption are being squeezed so expect GDP growth of only around 4.5% this calendar year.

COUNTRY REVIEW SUMMARIES



TURKEY

Contracting out?

The latest economic data indicate a strong recession in 2009. Real GDP contracted by 6.2% yr/yr in Q4, while industrial output and exports plummeted by 22.5% and 25.4%, respectively, in Jan-Feb. The manufacturing industry capacity utilisation ratio fell to 64% in Q1, down from 80% a year earlier, and the unemployment rate jumped to 15.5% in January from 11.3% a year ago. Expect the economy to contract by at least 4% in 2009. There are no definitive signs of resumption of discussions with the IMF even though the end-March local elections are now out of the way. Country risk remains very high.



GAMBIA

Jam today and tomorrow

Presidential elections in 2006 returned Yahya Jammeh for a further 5-year term. The ruling APRC holds 42 out of 48 parliamentary seats. However, there is periodic dissent and dissatisfaction with the effectiveness of governance. With a meagre natural resource base (other than groundnuts) and limited geographic area, Gambia will remain aid dependent. Tourism receipts are subject to volatility associated with perceived security threats and, currently, with reduced global visitor demand, particularly from Europe. Accordingly, expect GDP growth of around 3% in 2009 (average 5% 2000-08).

IN BRIEF

Sovereign ratings Ecuador

Moody's downgraded **Latvia** by two notches to Baa3 and **Lithuania** by one notch to A3, both with a negative outlook. Rafael Correa was re-elected for a second term in the first round (26 April) of voting in presidential elections.

Edited by Andrew Atkinson

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